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Ideas on Liberty

OCTOBER 1978

The Ideology of Underdevelopment

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HENRY HAZLITT

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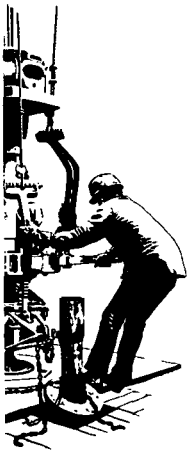
Carlos Henkel and
Robert Poole, Jr.



HOW TO BREAK UP OPEC

Myths and Realities of Gas Deregulation

DEREGULATION of the price of natural gas has been this year's hottest energy issue. Despite a campaign pledge to abolish federal price controls, President Carter subsequently urged Congress to extend the controls to the unregulated intrastate market. He also called deregulation a "rip-off" of consumers, and urged Congress not to be swayed by oil and gas industry lobbyists.

Yet the facts about natural gas are so much at variance with the impression one gets from politicians and television commentators as to be almost unbelievable. The fact is that there are vast quantities of gas available in the United States—enough to break the back of the OPEC cartel—if only regulations did not prevent its being produced. And deregulation will very likely end up costing consumers *less* than any of the alternatives now being considered. Congress—and the TV commentators—continue to discuss the issue as if these facts were not available. Yet, as we hope to show in this article, all the necessary information is, and has been, readily available.

Regulations and their Consequences

Natural gas availability first took on the air of a "crisis" during the deplorable shortages of the winter of 1976-77. We say deplorable for several reasons: not only the human misery that resulted from a lack of

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heat, but also the loss of jobs, production, and income (which means a decrease in the standard of living for all of us). Most of all, it's deplorable because it wasn't really necessary.

In 1974 the Federal Power Commission (FPC) warned that, other things being equal, the United States was in danger of running out of natural gas.[1] Gordon K. Zareski, chief of planning and development at the FPC's Bureau of Natural Gas, has pointed out that while drilling almost doubled in four years, from 22.6 million feet in 1971 to 41.9 million feet in 1975, additions to reserves remained *below* annual consumption every year.

Part of the problem is that deeper wells must now be drilled to obtain gas. Wells three miles deep are now common in Texas and Oklahoma. It costs $3 million to drill a 20,000-foot well in West Texas. Offshore wells, though averaging only $1 million to drill, take five to six years to get into production. Fewer large gas fields are being found these days, and production peaked at 23 trillion cubic feet (tcf) in 1974, falling to about 19 tcf in 1977.

The key measure in any discussion of gas supplies is "reserves." Proved reserves are estimates of what is available from developed reservoirs, *assuming present prices and current technology*. Several conclusions follow directly from this definition.

First of all, reserves are, by definition, dependent on the price at which gas can be sold. This is easy enough to see. Amounts of gas in deposits currently being exploited can be sent to the pipelines at current prices. But what about gas deposits that are harder to get at, or those reasonably assumed to exist but not yet being exploited? Obviously, to deliver *this* gas to the pipeline will cost more than delivering gas already in production. And if the cost exceeds the price the government allows the producer to charge, then that excess cost must either be absorbed by the producer (and his stockholders)—or, more likely, that gas will simply not be produced, at current prices.

Second, if "current prices" are allowed to increase, then "proved reserves" immediately increase. Why? Because those gas deposits too expensive to exploit before can now be produced at a profit. No matter what your opinion of producers might be, a second-grader could tell you there is no profit in selling lemonade at 5¢ a glass if it costs you 7¢ to make it.

Third, development of new technology is expensive. Without adequate incentives, a producer may spend some funds on developing new technology, in the hope that in the long run a better or cheaper production method will result. But when everyone from the President to the corner girlwatcher is shouting

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"crisis" then "in the long run" is not good enough. The development of new technology should receive high priority when price and tax incentives are being discussed. No other incentive will generate the capital investments required, because new capital is *not* going to flow to subsidize enterprises that must sell below their cost. If new capital did this, our country would be out of capital in a very short time.

And just to put to rest another myth, who is it that defines what amount of proved reserves exist? The producers, trying to force higher prices, as most people believe? No, these estimates are prepared by the American Gas Association, which is an organization of *distributors,* not producers.They are people who *pay* the wellhead price, not those who charge it. The AGA Committee on Natural Gas Reserves is made up of eight representatives of pipeline and distribution companies, three from major oil companies, and representatives of the Department of the Interior, the Bureau of Mines, the FPC, and the Federal Energy Administration.

How Controls Disrupt

The present structure of price controls produced its most serious effects—thus far—in the winter of 1976-77. But the area most in jeopardy now appears to be California. In that state 55% of all non-vehicular energy requirements are met by clean-burning natural gas. Distribution systems for fuels other than natural gas are completely inadequate. Even if alternate fuels such as coal or oil *could* be distributed instead, pollution in the Los Angeles basin would become unbearable.[2]

Already a shortage of natural gas exists in California, and is getting worse. FPC figures showed a 22% supply shortage for the winter of 1976-77; the figures were 18% in 1975 and 14% in 1974. Thus, unless expensive liquified natural gas (LNG) is imported (at approximately $3.50 per thousand cubic feet compared with $0.70 for the average pipeline gas price) the alternatives are: either demand is left unsatisfied and the economy suffers (loss of jobs and income) or the demand is filled by alternate fuels like oil and the environment suffers.

The price of the shortage has already been substantial in California. A study by SRI International shows that since 1971 over 76,000 California jobs have been lost because of reduced gas supplies. The same study estimates that by 1981 the loss will have risen to 800,000 jobs, just due to gas shortages.

The outlook for California industry is more of the same. Joseph R. Reusch, president of Pacific Lighting Corporation (parent of Southern California Gas Company), warns

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that gas curtailments will accelerate. At Kaiser Steel's huge Fontana mill Pacific Lighting will curtail gas boiler fuel on about 200 days this year. The alternative is low-sulfur fuel oil, which is about 1.67 times as expensive, per BTU, as natural gas. Lockheed Aircraft Corporation's six plants suffered gas curtailments only a few days in 1974 and 1975, but reached fairly heavy cutbacks in 1976, and 60% cutbacks in 1977—with no gas at all in 1978. According to Harry Winston, head of Lockheed's energy program, the company is turning to diesel fuel, two and a half times as expensive as natural gas. Diesel fuel will become short, too, because of limited West Coast refining capacity. "By 1980 we'll be running tight on overall product demand," predicts Edward J. Cahill, economist with Standard Oil of California.

Agriculture Affected

So much for industry. What about agriculture? At one end, the fertilizer industry is concerned about receiving enough gas feedstocks at a price that will permit staying competitive. At the other end, canneries are being cut off and are having to convert to diesel oil, at about $500,000 per plant, according to Tri-Valley Growers, Inc.

Executive vice president Harvey A. Proctor of Pacific Lighting predicts cuts to firm customers by the winter of 1978-79 and warns that many of Southern California Gas Company's 12 million users will lose their jobs if a solution is not found. He points out that, attempting to remedy some of the shortage problems, Pacific Lighting negotiated to buy the *rights* to 4.2 trillion cubic feet of gas from ARCO, in return for $327 million to finance additional development of Alaska's North Slope. The plan was first approved, then vetoed, by the California Public Utilities Commission.

Meanwhile, production continues to drop. Edward Najaiko, vice president of El Paso Company, whose pipeline delivers a lot of gas to California, says, "In the past few years we've been using twice as much gas as has been found." Despite the addition of the Prudhoe Bay deposits in 1970, U.S. natural gas reserves went from 292.9 trillion cubic feet in 1967 to 228.2 tcf by the end of 1975, a decrease of 22%. Annual production decreased from 22.6 tcf in 1973 to 19.4 tcf in 1977.[3] Yearly consumption is about 19 tcf.

Short-Term Prospects

What, then, is the outlook? How much gas do we have left? Surely some agreement can be found in this area? Actually, not. As we noted before, it all depends on what gas price you are talking about. Let's look at some of the reported figures and estimates.

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In 1977 a study was performed by some 70 people at the Energy Research and Development Administration (ERDA). The study, titled MOPPS (Market Oriented Program Planning Study), provided three estimates of natural gas reserves, based on a number of assumptions.[4] According to the most pessimistic estimate, the potential reserves at $3.25 per thousand cubic feet* are *double* those at Congress's proposed $1.75 ceiling. And this includes only conventional sources of natural gas. The most optimistic estimates include unconventional sources (more on those, below), and estimate over 600 tcf at prices *below* $3.25. If we consider that the closest competitive substitute for natural gas is No. 2 fuel oil at an equivalent of $3.00, the good people at ERDA have just told us that deregulation of gas prices could break up the OPEC cartel. It is that simple. It also appears that nobody in high places was listening—or that this information is being deliberately ignored.

When the MOPPS study speaks of deregulation, it is not bringing up a new issue. Economists have been urging that gas prices be decontrolled for at least the past decade. In the February 14, 1977 issue of *Business Week* Anthony J. Parisi recommended immediate deregulation of the price of new gas supplies.[5] Parisi pointed out that free market prices have not been allowed to interstate pipeline companies for over 23 years. *Intra*state prices and supplies, meanwhile, were allowed to follow the laws of supply and demand. As a result, the average price of gas within Texas is $1.80—about four times the average price of all *inter*state gas, and only 10% below the world oil price, on a BTU-equivalent basis.

Across State Lines

Due to interstate price controls, reserves committed to big interstate pipelines have dropped drastically: in recent years they have secured only about 15% of all new gas sold, coming mostly from offshore fields in federal waters. (And these are dedicated *by law* to the interstate market.) Parisi points out that deregulation would permit interstate buyers to compete with intrastate buyers for new gas sources. As a consequence, a greater percentage of gas coming on stream each year would go to customers in distant states. Also, many as yet uneconomical offshore gas fields would become economically viable and more virgin sites would be drilled. And, as gas bills increased, demand would diminish, especially industrial demand. Currently, industry pays *less* than homeowners and thus uses gas in lower priority applications.

*Gas prices subsequently quoted are at the rate per thousand cubic feet.

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Charles L. Blackburn, executive vice president in charge of exploration at Shell, states, "There are lots of prospects in the Gulf that everybody knows have gas. These fields could be exploited and developed." James Murphy, president of Vaquero Petroleum in Houston, thinks that liberating just *new* gas prices would add two billion cubic feet to the current Gulf area production of nearly 10 billion cubic feet per day. This would not solve the shortage, since freeing only new gas would affect only 10% of the gas in current interstate commerce. "The other 90% will continue to sell at long-term contract prices of less than $0.30 per thousand cubic feet equivalent to crude oil at $1.80 a barrel," says A. V. Jones, Jr., president of the Independent Petroleum Association of America.

How Much Gas Is Really There?

The U.S. Geological Survey (USGS) estimates gas reserves as follows: 228.2 trillion cubic feet in proved reserves, 201.6 tcf in inferred reserves (including Alaska and offshore deposits), and anywhere from 322 to 655 tcf as undiscovered but recoverable reserves. These figures are less than 50% of what USGS estimated as recently as 1974. Julian Martin of the Texas Independent Producers and Royalty Owners (wildcatters) estimates undiscovered reserves at approximately 700 tcf, and considers this a conservative estimate, since others have mentioned anywhere from 350 to 4000 tcf.[6]

But all these estimates apply only to conventional sources of natural gas. Besides these, there are at least four "unconventional" sources of gas—mostly methane—that could eliminate any gas shortage for hundreds of years. All four sources would be exploitable—at less cost than LNG or exotic coal-to-gas conversions—if price controls on gas were removed.

The first such source is the huge "geopressurized zone" of the Gulf coast. The USGS estimates that geothermal hot salt water under Texas and Louisiana contains 24,000 tcf of methane.[7] In this region large aquifers at 8,000 to 25,000 feet depth, at a temperature of 150°C. and high pressures, contain up to 45 cubic feet of gas per barrel of water.[8] Estimates of the total amount of methane gas in onshore aquifers vary. Bill Rise of Louisiana State University estimates 3000 tcf; the USGS, as mentioned, says 24,000 tcf; and Paul H. Jones of LSU projects 49,500 tcf (about a 2600-year supply!). And similar amounts are expected in offshore deposits. Production costs would be high, and because of subsidence, only about five percent of the water in the aquifers could be removed. Thus, using the most conservative

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estimates of onshore and offshore gas supply, this would mean 300 tcf of recoverable gas—more than doubling current proved reserves. Using the USGS estimates leads to a figure of 2400 tcf of recoverable gas—a 126-year supply, at present rates of use.

Methane in Coal Beds

According to the National Research Council Forum on Potential Resources of Natural Gas, methane in coal beds would be the cheapest and easiest new source to exploit. All coal deposits contain trapped methane. This gas is hazardous to coal mining, and is currently being vented to the atmosphere, because gas prices are too low to make it economical to recover. The average methane content is 247 cubic feet per metric ton of coal. Thus, *known* U.S. coal deposits contain at least some 300 tcf of methane.

Another source is gas in "tight sands." Tight sands are layers of clay, chalk, and sandstone in shale that sometimes contain gas. The USGS estimates that there are some 600 tcf trapped in the Fort Union and Mesaverde reservoirs in the Rockies, and similar amounts elsewhere. Recovery requires extensive fracturing of the shale. Nuclear fracturing has been tried, without too much success, but hydraulic fracturing looks promising. If gas prices were to rise to only $2.00 per thousand cubic feet, the Rocky Mountain basin could be producing almost a trillion cubic feet per year within seven years, according to Lloyd E. Elkins of Amoco.

A fourth unconventional source is gas in Devonian shale. Found in the eastern and midwestern United States, shale contains from 22 to 33.5 cubic feet of trapped gas per metric ton. The USGS estimates that approximately 494 tcf of gas could be found in this type of shale. Such gas has already been produced locally in eastern Kentucky. The wellhead cost for shale gas is approximately $2.00, according to William Morse of Columbia Gas Transmission Corporation.

Together, these four sources could provide an additional 3794 tcf—17 times more than existing proved reserves and equal to the highest estimates of remaining undiscovered gas from conventional sources. The 3794 tcf is equivalent to a 200-year supply, at present consumption rates. This gas *will* be produced if prices are allowed to rise to between $2.00 and $3.00. It cannot be produced at today's controlled prices—or even at the proposed new ceiling of $1.93.

What About Your Gas Bill?

About 30% of all gas used goes to residential customers. The rest goes to industry, as we have seen, at lower rates. How is the gas price to

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the consumer arrived at? The *Wall Street Journal* recently provided an illuminating case study.[9] In Brooklyn, New York only 20% of the bill goes for the gas itself; the other 80% goes to pay for pipeline costs. This immediately tells us that the wellhead price of gas—the only factor in the deregulation controversy—will have comparatively little effect on your gas bill. Today's average wellhead price is $0.45. What does Brooklyn Union Gas charge its residential customers? $3.38 for heating and cooking, or $5.78 for cooking only. In 1973, when the wellhead price was $0.25, the company charged $1.72 for heating and cooking gas, and $3.42 for cooking only. Clearly, most of the four-year increase was *not* due to the increase in the wellhead price. To what then? Pipeline costs.

Pipeline amortization plus operating costs plus profit are estimated long in advance *per cubic foot carried*. In 1973 the pipeline was full; it was half empty in 1977 and the price doubled. To anticipate your next question: pipelines are *not* allowed to pay higher wellhead prices to keep the lines full and thus keep costs down—that's what the price controls prevent. A 1975 study by Arthur Young & Company showed that without new supplies from deregulation, by 1980 Brooklyn Union Gas would have to sell its gas at $4.45. *If* the pipeline were kept full with a wellhead price even as high as $2.50—a 5.5-fold increase—the price to consumers would be $3.98. At a wellhead price of $1.50, gas would retail at $3.31 with a full line. This is actually *cheaper* than today's $3.38 with a half-empty line and a wellhead price of $0.45! For other locations the actual figures would vary, but the point remains the same: the price to the consumer depends primarily on pipeline costs, and is *less* when the pipeline can be kept full by abundant supplies of (more expensive) gas.

Conclusions

What can we conclude from all this? We realize that for many people this information must be somewhat confusing, because of its technical nature and the many figures involved. But the subject is *inherently* complex because of its nature, and thus must be presented in a fairly technical manner in order to be understood. Many of our elected officials take advantage of this complexity, counting on their listeners being too naive to understand what's really going on. Thus, the cries of "profiteering" and "rip-offs" tend to be taken at face value, rather than being dismissed as obfuscation of the real issues. It is worth keeping in mind, also, that even if some of the figures in this article were not completely accurate, even if some were off by 100%,

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Competition Serves Consumers

PRIVATE enterprisers are constantly trying to find new materials and new uses for known resources, always looking ahead to see which ones will be available and how efficiently they can be utilized. Pick up any trade journal and note the articles on how to cut costs, utilize waste materials, be more efficient. Because the government told them to? No. The hope of profits acts as a powerful compulsion to be efficient, to improve, to conserve. The following examples show how private enterprisers eliminate waste and utilize natural resources to meet the needs of the consuming public.

Until natural gas was known to be useful as a fuel, petroleum producers burned it to get rid of it. Until ways were found of storing and transporting gas with safety, it had only local use. Competition forced the search for further uses and wider markets, and profits rewarded those who best served consumers. As ways were found to handle gas beyond local markets, consumers elsewhere gained a wider choice of fuel, and other fuels were thereby conserved.

RUTH SHALLCROSS MAYNARD
"Who Conserves Our Resources?"

the basic conclusions would still be the same. Some of these conclusions are as follows.

First, we have, if not a crisis, certainly a gas shortage. FPC data tell us that reserves were decreasing even while drilling almost doubled. In fact, we'll have a five-year gas shortage even if we get deregulation. An MIT computer study found that there will be a five-year lead time to eliminate the shortage, once prices are set free.[10] Kevin Lloyd of MIT's Energy Lab reports that if the price were to rise immediately to $2.00 we would see only a five percent production increase the first year. By 1980 the shortage would be reduced to 5-10% of demand, from the current 25-30%. At the $2.00 price level, all demand, old and new, would be filled by 1982.

The severe effects of the shortage in winter 1976-77 were very expensive: up to 1.5 million jobs lost, and a 32% increase in oil imports over

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1976. These effects could have been prevented by allowing gas prices to reach free-market levels. On an energy content (BTU) basis, unregulated *intra*state prices are only *10% below* oil prices on the world market. And the MOPPS study showed that reserves of conventional sources of natural gas would *double* if the price were to reach $3.25. The analysis in that study took place in 1974. But nothing has been done.

Those who projected the effects of deregulation found that it would solve the problem in a matter of a few years. If interstate gas were to rise above $2.00, it would be able to compete with intrastate gas. This would help to keep pipelines full, leading to *lower* retail prices to consumers, other things being equal. Even a very dramatic increase in the wellhead price of natural gas would not affect domestic gas bills proportionally: this is because only about 20% of the bill is due to the cost of the gas, with the bulk of it accounted for by pipeline costs.

From these findings we cannot escape the conclusion that we could literally break up the OPEC oil cartel if we developed our unconventional gas resources and expanded conventional ones. If intrastate gas at $2.00 is only 10% below international oil prices on a BTU basis, then OPEC has a very limited future. At $2.50 or $3.00 the United States would be awash in natural gas, and the price of oil, as a less desirable fuel, would be forced down. We believe it is in the interest of all of us to reduce our dependence on foreign sources of energy, when this can be done at such a relatively minor cost.

—FOOTNOTES—

[1]"1974 Report Warned of Possible Gas Crisis," Robert Gillette, *Los Angeles Times*, Feb. 7, 1977.

[2]"The Natural Gas Shortage," *Business Week*, Sept. 27, 1976.

[3]"Misconceptions About the Gas Shortage," Alan Reynolds, *First Chicago World Report*, April 1977, plus telephone update.

[4]"Jimmy Carter on the Run," *Wall Street Journal*, June 14, 1977.

[5]"Needed More than Ever: Realistic Gas Pricing," Anthony J. Parisi, *Business Week*, Feb. 14, 1977.

[6]"Drillers Say Natural Gas Abounds—Deep Down," Nicholas C. Chriss, *Los Angeles Times*, Feb. 3, 1977.

[7]"Fizz from a Dead Well," Bill Crider, Associated Press, June 20, 1977.

[8]"Natural Gas: U.S. Has It, If the Price Is Right," Thomas H. Maugh, II, *Science*, Feb. 13, 1976.

[9]"Cheap Gas for Brooklyn," *Wall Street Journal*, June 21, 1977.

[10]"Five Year Gas Shortage Seen Even With Price Increase," *Los Angeles Times*, Feb. 3, 1977.

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Hans F. Sennholz

HOW SAFE IS YOUR BANK?

THERE was a time when Americans wondered about the safety of their bank. In depressions the banks used to close their doors by the hundreds. From August 1931 through February 1932, 2,000 banks with liabilities of over $1.5 billion suspended operations. Many others barely escaped bankruptcy by hurriedly-negotiated mergers. All were forced to curtail their operations sharply. When the depositors were thoroughly scared, they rushed to withdraw their deposits, which forced even more banks to close their doors. To find a reliable, solid bank used to be a difficult task.

Today, most depositors don't seem concerned over the solvency of their bank. Bankers and government regulators have succeeded in convincing the public that most banks are sound. There is careful government supervision of all banking operations, and federal deposit insurance is said to cover nearly all deposits.

These arguments alone should trigger an instant alarm. In all its regulating, government usually makes matters worse. When politicians and bureaucrats invade an industry and regulate it along political and social lines, service is likely to deteriorate and solvency may be endangered. Why should banking be different from medical care, education, or welfare?

When the New Deal government undertook to reorganize the American banking industry in 1933, the

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system deteriorated. What used to be an occasional irritant for some became a fatal disease for all. Rushing to the rescue of the hard-pressed banks, the government seized their gold reserves and replaced them with paper money that has been depreciating ever since.

How Banks Fail

Prior to 1933 a few banks had failed to make payment on demand when an economic depression had caught them by surprise, inflicting painful losses on depositors. Since the New Deal rescue action, all depositors have lost at least 80 percent of their savings through inflation, and probably will lose the balance in the not too distant future. The banks are still functioning, seeking deposits and extending credit. But they are prevented by law from protecting their depositors from the ravages of inflation. They must make payments in political paper money only, that is depreciating at accelerating rates, and must invest their assets in depreciating monetary claims. The depositors are victimized every step of the way.

The new monetary order did make it much easier for the banks to stay liquid and solvent. It was more manageable to maintain a reserve of legal tender Federal Reserve money, or to keep on hand a reserve of U.S. Treasury obligations eligible for Federal Reserve discounting, than to maintain a gold reserve for all payment obligations. What used to be a difficult banking function, to safeguard the reserves in gold, became a simple task of compliance with government regulations to make paper payments. The depositors thus were led to believe that their money was safe in banks assisted by the Federal Reserve System and supported by the Federal Deposit Insurance Corporation.

And yet the American banking system today is as vulnerable to crisis as it was in the early 1930s. To hundreds of commercial banks the simple obligation to make prompt payments in paper money, which is available in such abundance, has become as onerous and embarrassing as the gold payment obligation of the past. According to Federal Reserve reports, only 66 percent of the banks it supervises are in satisfactory condition. Roughly one-third have some payment problems. A few have already failed and many more were saved from default by reorganization and refinancing.

It should not surprise us that the cancerous monetary order has finally infected banking. The rapid increase in Federal Reserve money in recent years convinced many bankers that there would always be an abundance of easy money and credit, of which they were determined to get their share. When their deposits did not keep pace with their

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desire for expansion, they borrowed the money themselves. They sold certificates of deposit, commercial paper, and borrowed in the Eurodollar market. The larger city banks especially learned to rely on "purchased money," which may account for more than 50 percent of their deposit liabilities.

Unsound Policies of Many Big City Banks

The precarious banking situation of today differs from that of the early 30s in one important respect: then it was the small rural banks that faced payment difficulties when their farm loans defaulted, because American agriculture suffered from the deepest depression. Now it is the big city institutions with their "go-go" bankers that shed all caution in order to partake of the easy-money and help stimulate the national economy. Seeking ever new channels for investment, they often ignored the rudimentary rules of banking soundness.

Many big city banks are over-extended, badly exposed, thinly capitalized, and short on liquidity. With U.S. government blessing and prodding, they loaned more than $20 billion to underdeveloped countries in Africa and Asia. Many of these debtor countries have neither the economic capacity nor the political stability ever to repay their loans. Some would not be able to pay the interest if the banks would not lend them the money.

Guided and prompted by the monetary authorities, the banks made many other mistakes from which they may eventually recover. They lent over $11 billion to real estate investment trusts which own vacant hotels and motels, commercial office buildings, and condominiums still looking for tenants. They lent $6 billion to oil tanker owners whose ships sit idle in the shipyards. However, the dollar inflation and depreciation can be expected to rescue the debtors and their bankers as the loans depreciate and the assets appreciate in price. Once again the depositors will be the ultimate victims.

The New York City banks lent $6.5 billion to the governments of New York State and City. Other urban banks throughout the country extended multibillion-dollar credits to their over-extended spendthrift local governments. New York State and City would have long since defaulted, and their creditors as well, if the federal government had not come to their rescue with billion-dollar loans and guarantees. It makes no sense to blame the bankers for having made such dubious loans. How could they have resisted the political pressure and public demand for "socially desirable" funds and projects? Even in the face of imminent default the political

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oratory for more bank loans is deafening.

It is impossible to foresee the outcome of this banking dilemma. The banking authorities are doing everything in their power to hide the situation from the American public. The Federal Reserve reassures us again and again that it will be the lender of last resort to "sound" member banks, by which it means all those banks who carefully follow its regulations. It stands ready to supply liquidity, that is, loans, to meet bank liabilities in exchange for temporarily illiquid, but hopefully "sound," assets. But how sound are New York City bonds or the billion-dollar obligations of Zaire?

Financial Statements

Financial statements by banks are very difficult to interpret, as they violate the most important principles of honest accounting. To hide investment losses, for instance, a bank balance sheet may show the costs of an investment rather than present market value. But financial statements may be useful in finding the problem banks. If bank assets are "classified," i.e., if they are not disclosed, the asset values listed can be expected to be grossly overstated, reflecting neither current values nor liquidation values. According to customary evaluation methods, a bank with classified assets of over 65 percent of capital is worrisome. As they exceed this conventional limit the danger of banking failure grows accordingly. When seen in this light, some of the big city banks may close their doors at any time.

And yet, we are confident that no lasting harm will come to these banks. The effects and repercussions of a banking collapse would be catastrophic to the U.S. and the world economy. What must not be will not be—as long as the federal government can avoid it. It can postpone the unspeakable temporarily. Admittedly, it has no asset reserves of its own, no wealth, no income that could be used to fill the hole. In fact, it admittedly owes the world at least $800 billion and is suffering huge current deficits. But it has the sovereign power of creating more dollars. It can inflate and depreciate our currency at ever faster rates. Therefore, if Zaire should default or New York go bankrupt, the federal government can be expected to come to the rescue of the beleaguered banks. Of course, such a rescue by the very policy responsible for the sad condition would further enhance federal power and subject the banks to more controls. And the dollar flood that is released for the rescue would inundate us all.

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World in the Grip of an Idea

Clarence B. Carson

22. The United States: A Bemused People

THERE is a public service advertisement that appears on television from time to time. One scenario has everyone in it moving around in wheel chairs except one person who walks about normally. Everything is arranged for the convenience of people in wheel chairs, which poses dangers and inconveniences for anyone afoot. In the other scenario, everyone is blind except one person. He opens a book but sees no words in it. He asks if there are any books with words in them in the library. They assure him that the books they are using have words in them. Since the person who can see cannot read in Braille, the others assume he cannot read.

The point of the advertisement is, in part at least, to arouse sympathy and understanding for the handicapped. So far as that is its purpose, there is nothing exceptional about it. To sympathize with and have concern for the less fortunate is in keeping with the highest concept of charity. Moreover, to put oneself in the place of others, by way of the imagination, is laudable.

However, the method used to do

In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

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this in the advertisement is questionable. The method entails a *reversal of the norms*. The handicapped, because of their implicit normality, have changed from being subjects worthy of sympathy and concern into threats to those who have been normal. What is convenient to their condition becomes the way things are to be arranged. This emerges as a threat because the people who have been handicapped show no sympathy or understanding for erstwhile normal people.

Reversing Normality

The transformation that has been going on in the United States proceeds by reversing normality. In effect, new norms are created, and the old established norms are abandoned. This change is impelled by the idea that has the world in its grip. Just as in the above scenario, what was normal becomes exceptional and unusual, or, at least, not distinctively normal. What was formerly rare or unusual takes its place among the expected and normal.

The process by which this transformation occurs should be familiar, for the pattern has been established by constant repetition and by expansive application into more and more areas. The change is advanced by relativistic arguments. In its bluntest formulation the argument goes something like this. What is normal? Who can say what is normal? At the ordinary level of discourse, these are unanswerable questions. They are difficult to answer, in the first place, because we are unprepared to defend our concepts of normality. We may be convinced that we know what is normal, but proof is quite another matter.

There is good reason for this. Inquisitive children usually learn at a fairly early age that questioning the norms is a fruitless and unrewarding undertaking. Far from being commended for being brilliant, they are apt to be maligned for their stupidity. After all, what kinds of questions can be raised about norms? Why do we walk on our feet instead of our hands? Why do we drive on the right instead of the left? Why do women have babies and men have hair on their chests? In most cases, no satisfactory answers can be given. Hence, children are discouraged from raising such questions. The best answer we can make in many cases is simply, "That is just the way things are." And what we are apt to think after saying it a few times is: "If you weren't so stupid, you would have figured it out for yourself."

There is yet another reason for our usual inability to make an apology for our norms. One of the primary concerns of society is to maintain the norms. All social function

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depends upon norms and their general acceptance. Take them away, or abandon them, and society disintegrates. All acts lose their meaning, and everything is unexpected and strange. To debate the validity of norms is to debate the validity of society. That is, of necessity, a debate for which there are no rules, and one which society cannot tolerate. Society's business is to discover, preserve, and maintain the norms, not to challenge them.

That is not to say that norms are not well grounded. On the contrary, many of them are grounded in nature. Where that is not the case—where they arose as custom, for example—they have been instilled by nurture and have become second nature by usage and veneration. Our very social existence is grounded in norms. Their reason for being, if there is no other reason, is the smooth functioning of society. It is a sound instinct that resists discarding a norm because we do not perceive its reason for being, for experience teaches that if we probe deep enough we may discover reasons we did not even suspect.

None of this is acceptable to socialists, of course. The received norms stand athwart the path which both revolutionary and evolutionary socialism must tread. Socialism requires that all efforts be concerted toward the achievement of human felicity on this earth.The great strength of the idea that has the world in its grip lies in that very conception. Its weakness lies in the conception, too, as well as elsewhere. The irony of it is that the achievement of human felicity, so far as is practicable, *is* a social norm. More, the purpose of society is to provide the framework for achieving such felicity as is possible for man.

But society does not define human felicity. That is left, in the main, to individual decision. In the same manner, individuals are left to a great variety of devices and means for achieving their own ends. This is anathema to socialists. They would transform society from a framework into the determinant of the content of felicity and the means by which it would be achieved. The individual would be confined and society politicized. Social norms would become whatever appeared to be useful in controlling the individual and politicizing society. Norms have to become what is decreed as normal by the political power. Gradualists, however, have no such absolute power as yet. In the United States, the communications industry has made forceful strides in determining what is normal.

Breaking Down Distinctions

The first stages of socialism are concerned mainly with breaking down the distinctions on which the norms are based. The breakdown of

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the norms proceeds along two lines. One is intellectual, and the mode is relativism. The tendency of relativism is to discredit all norms. Norms are, according to this line, simply matters of opinion. The authority for them becomes either majority opinion or simply whatever is done by large numbers of people. Normality in America has become indistinguishable from the average, or better still, the lowest common denominator of behavior. The logic of such an approach is that if norms are relative there are no norms. There is only what happens to prevail at the moment.

The other line is to pose continual challenges to the established norms. Journalism is particularly well suited to this undertaking. There is an old saw to the effect that if a dog bites a man that is not news, but if a man bites a dog that is news. That is a way of saying that journalists focus on the odd, strange, curious, different, and unusual. But when journalism becomes pervasive, as it bids to do in America today, it becomes a continual assault on the norms. This is especially the case when the odd, strange, and curious are not presented as odd, strange, and curious but as commonplace and normal. It happens over and over again that radicals are interviewed in such a way as to make them appear normal.

The technique by which this is done is easy enough to discern. Let us suppose that an advocate of communal living arrangements is being interviewed. The act is cleaned up for television, for instance. There is no obscenity or profanity. The interviewee is likely to be well enough dressed, be clean, well brushed, and reasonably neat. The impression prevails that he is different in one respect only—that is, that he believes the "nuclear family" is outmoded and new and extended families are emerging. New norms are taking shape before our eyes, as it were, painlessly and with no apparent wrench to a whole body of belief and practice. The odd, strange, and curious—the shifting and unsettled relationships in some sort of communal arrangement—are presented as an emerging norm.

Individuality Assaulted

Why is this assault on the norms made necessary by the idea that has the world in its grip? The reason is not difficult to grasp. There is one norm that must be wiped out if the idea is to prevail. It is the norm that individuals can, do, and will pursue their self-interest as they perceive it, ordinarily and generally. The pursuit of self-interest is the apple of discord in the socialist visionary Garden of Eden. It is the unpardonable sin, the source of man's fall, and the continuing obstacle to harmony and beatitude on this planet. So long

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as it remains normal, the vision of socialism is only a will-of-the-wisp.

On the face of it, the socialist problem would be easy enough to solve. All that would have to be done would be to get people to abandon the individual pursuit of self-interest and devote themselves to the common good. Isolate self-interest, pillory it, make it unacceptable, and people will abandon it. There have been attempts to do this, of course. But the solution is not that easy. Self-interest is not a norm existing in splendid isolation from all other norms. Instead, it is intertwined in the warp and woof of the whole fabric of the received normality. Socialists have generally understood this well enough and have grasped at least some of the dimensions of the problem confronting them.

The whole system of private property buttresses and supports—even rewards—the pursuit of self-interest by individuals. Free enterprise invites individuals to prosper by laboring to advance themselves. The norm that a man should receive the fruits of his labor places a premium on the pursuit of self-interest. The family is an enclave of self-interest or at least limited interest seeking. Members of the family are bidden to look after the family interest primarily. The institution of private property is so developed and conceived that it is tied up with the limited family interest—with inheritance, with wills, with shares for members of the family, and so on.

Even religion has been generally entangled with individual self-interest. (Indeed, Marx believed that organized religion was at the apex of the whole structure of capitalism.) The individual is bidden to take care of his interest in eternal beatitude in the hereafter by getting right with his Maker. The Hope of Heaven is, after all, a Hope primarily for individual salvation.

On the socialist view, then, the received norms are honeycombed with supports for and enticements to the individual to pursue his own self-interest. The pursuit of self-interest is a norm, as they see it, because the whole fabric of normality makes it appear to be so. In order to cut away the pursuit of self-interest, the whole structure of normality must be replaced. Those under the sway of the idea differ about means and, perhaps, about how drastic the surgery must be, but they basically agree over the problems presented by the received norms.

A Political Movement to Effect Economic Change

There have been two major thrusts of socialism in the United States in the twentieth century, with many more smaller and interrelated developments. The first

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thrust evinced itself primarily as a political movement aimed at bringing about economic changes. This political thrust has gained momentum several times, but it was most successful in making headway in the 1930s. Roosevelt's New Deal succeeded in passing legislation which seriously altered the framework of economic normality and morality.

The use of government power to redistribute the wealth was established as a principle during the decade of the 1930s. The Social Security enactment turned out to be the centerpiece of the distributionist legislation. By means of it money was taxed from earners and distributed after retirement to those who had paid into it. It was, and is, redistributionist because benefits do not depend upon amount paid in; they are determined by Congress according to formulas which have been revised over the years.

Redistribution was also the operative principle in many other New Deal programs. The farm subsidy programs redistributed wealth. The government put its weight behind labor unions, and hence the use of coercion by unions to get higher wages and shorter hours. Subsidized houses and government supported loans were also redistributionist in character. The graduated income tax which, along with Social Security, undergirds redistribution, had already been used, but it was much extended under the New Deal.

New distributionist programs have been enacted over the years. The most notable, and notorious, have been the welfare programs. Less well publicized, but more ubiquitous, are the numerous subsidies to everything from airports to local police to school lunch programs. The Federal hand is not only in every pocket but the Federal handout is extended in every direction.

Monetary and Spending Policies to Achieve Control

That government power should be used to control and direct the economy was also established as a principle in the 1930s. Manipulation of the money supply was one of the earliest and main instruments of this control. Another major instrument is government spending and it is linked with taxation to direct economic action. Government has so long concerned itself with employment and unemployment that for most people it must appear as legitimate a government function as is the apprehending and punishing of criminals. All these ways of controlling and directing the economy have been steadily expanded and extended since that time.

The other major thrust to socialism came in the 1960s and has continued apace since. Although it,

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too, is political, the primary aim is not so much economic as social. This thrust is toward social transformation. It emerges as an effort to overturn the established norms as a means of changing the existing order. Legislation is mainly a framework only for this transformation.

Every norm is grist for the mill in this transformation. Indeed, it is not clear, in general, that overturning one norm is more important than another. Since all norms support the existing order, they must all be overturned or transformed. It hardly matters whether what is involved is sex, marriage, the family, the role and position of the husband, education, military authority, the authority of the President, ownership and control over property, or whatever. Every norm overturned weakens the authority of all norms.

In this sense, priority for destruction of norms may best be given to those most deeply entrenched. It is from this angle that the assault on sexual norms may be understood. Sexual norms have been long established, and would appear to be most difficult to alter. Indeed, many of the sexual norms are rooted in nature, and some of them have been surrounded by taboos. It is also the case that some of the most fundamental inequalities are sex related. It is reasonable to suppose that if the sexual norms could be destroyed, all other norms might fall in their wake.

The attack on sexual norms has been blatant in recent years. Male dominance and authority have been under consistent assault. The norm has been that the male is dominant in male-female relationships—that his opinion is deferred to, his decision final, and that he is the fiscally responsible partner in the household. This norm is supported by custom and tradition, and has been supported by religious authority. A portion, at least, of this norm has a natural basis. Normally, men are taller, heavier, and stronger than women. Women are the childbearers by nature, and many of the skills and abilities which they have developed have been related to that role. The nuclear family, as monogamous marriage has been lately dubbed, is founded in the nature of parental responsibility, and the desirable conditions of child bearing. The norms are threatened by what is called female liberation.

Aggressive homosexuality threatens the whole concept of normality. If homosexuality is "normal" there are no norms in sexual relationships. The male dominance takes on only a symbolic, and entirely relative, significance. Parental responsibility has no foundation in homosexuality. The distinction between male and female is obliterated. Normal is cut loose from

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its foundation in nature. The whole framework of norms entailed in marriage, the family, property inheritance, loses its meaning when homosexuality is accepted as normal.

The Impact on Society: A Chaos of Relationships

The reversal of the norms has a devastating impact on society. Norms are to society what the fixed points of a compass are to navigation. It can be argued that norms are relative, that some of them are even arbitrary, which they may be. In a similar fashion, it can be argued that the directions on a compass are relative, as indeed they are in some senses. But it is absolutely essential to agree upon and accept them else charts become worthless, and no definite course can be plotted to go from one place to another. The functioning of society is equally dependent upon agreement upon and acceptance of a set of norms. Norms are the foundation of privileges, positions and functions within a society. When they are overturned, a chaos of relationships results. No one can any longer be sure what function he is to perform, or who has the right or authority to make any decision or perform any act.

Every body must have a head. Every household must have a head. Every undertaking involving two or more people must have someone who is in charge. Constructive activity depends upon each person knowing what he is to do. When the norms are overturned, constructive activity declines and debates and contests over authority ensue. Force tends to replace voluntary cooperation, and the strongest or most determined assert what is often enough entirely arbitrary authority.

That is what is happening in large in the United States. The norms may not have been overturned in many instances, but they have been so seriously questioned that their validity is in doubt, and there is no longer universal agreement upon and acceptance of them. Those who insist upon traditional male-female roles are denounced as "male chauvinist pigs." Those who are affronted by open homosexuality are accused of being intolerant. Those who exercise firmly the authority of their positions are charged with being dictatorial. Students would determine the content of their courses and formally evaluate their teachers. Prison inmates attempt to organize politically in order to run the prisons. Unions negotiate and enforce work rules.

What a man may do with and on his property is in such doubt that experts must be called upon to set matters right. The courts are burdened down with litigation as civil suits burgeon. Court cases are increasing in length and complexity, and no decision ever seems final as

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appeal follows upon appeal from whatever decision has been rendered. Interminable hearings precede all sorts of undertakings. Debates and contests over who has the right and authority to do what supersede the constructive activity by which it might be accomplished.

Rampant Confusion

The American people are bemused. The word has two rather distinct meanings. It means "confused, muddled, stupefied" and it means "lost in thought" or "preoccupied." Americans have every reason to be confused. They have been repeatedly confronted and affronted by scandalous behavior that has gone unreproached. They have witnessed in a span of little more than a decade the breakdown of social restraints as in the case of the public use of profanity and obscenities. They have seen the breakdown of the proprieties as they apply to female behavior. On the day before four students were shot down by the National Guard at Kent State, teen-age girls roamed the campus making lascivious invitations to the guardsmen, shouting unprintable obscenities at them, and otherwise behaving like tramps. People have witnessed the loosening of all sorts of restraints and have felt powerless to do anything about it. The symbols of political authority—the military and the police—have been defied with impunity and subjected to verbal and physical assault. Why would not people be confused?

And, whether lost in thought or not, the American people have been preoccupied. Better, they have increasingly occupied themselves with their own affairs and closed their eyes to what is going on with society. It is understandable that they should. The disintegration of society means that the individual can no longer rely on support in bringing reproach and discredit on those who flout the norms and proclaim their disdain for social prescription. The disintegration of society means, too, that the individual had best look to his own protection and well-being. But it also means that force will be brought to bear in more and more areas of life. The breakdown of authority is not the prelude to liberation, it is rather the precondition of the restoration of some sort of authority by the exercise of force.

Force Fills the Vacuum

Today, that force evinces itself as government intruding ever more deeply into our lives. It manifests itself as the loss of control over our own affairs to those who hold the reins of political power. The New Deal type intervention has continued apace in conjunction with the assault on the norms. But in those areas where society is impotent, government is just about equally

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impotent. Thus, the authority of government declines even as society disintegrates.

The idea that has the world in its grip would replace the pursuit of self-interest by a pursuit of the common good. There is no evidence that this has resulted as yet. True, politicians and spokesmen in the communications industry speak a rhetoric of the common good. But the most obvious development thus far has been the disintegration of society and the decay of civilized behavior—the very instruments of the promotion of the common good. There is much verbal evidence that the American people have lost confidence in government as an instrument of the general welfare and for the promotion of the common good. But in their bemused state, they do not readily grasp or believe in an effective alternative.

Of course, the United States does not exist in a vacuum. The hold of the idea upon America is an integral part of its hold on the people and governments of the world. It is appropriate now to turn to an examination of it in that perspective. ⊕

Next: *23. The Cold War: Revolutionary versus Evolutionary Socialism.*

Individualism Maximizes Freedoms

FREEDOM, being an alloy of idealisms and realisms blending conceptions with actualities, challenges definition; even in the sense our Founding Fathers cited Liberty as a Right to freedom we have seen "freedoms from" obliterating "freedoms to" and "freedoms for," seen emphasis on freedom's idealisms displacing freedom's actualities and vice versa, even the pursuit of equal freedoms for all destroying the freedoms of all.

"Freedom" then, like it or not, has become a code word that is subject to abuse, while on the other hand individualism is something to which we can all relate. Where respect for individualism is maximized is where all individuals enjoy the maximum of freedoms, including among them the maximum freedoms of thought, speech and deed.

J. KESNER KAHN

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Perry E. Gresham

Liberty for Older Americans

OLDER AMERICANS are in a serious identity crisis. Many of the norms for aging are not appropriate for bright and active older people. The norms are changing which adds to the problems of identity. The acceptable role for "grandparents," "senior citizens," and "older Americans" is anything but clear; but even when it is clarified, it turns out to be objectionable to any person who has a mind of his own. One cannot fit the stereotypes that have accumulated through years of misunderstanding.

Now that I am in my seventies, I have sensed in American life a sort of contempt for the old. I have tried hard to make allowances for any hypersensitivity or personal idiosyncracies. The stark fact of contempt still remains. Old people are regarded as a sort of nuisance. The prevailing attitude seems to be, "Get out of the labor force and leave room for the young," "get off the highway and let the young people who wish to go somewhere, go," "these things cannot possibly mean anything to you so get out of the way and let us enjoy them."

I have noticed a look of irritation and contempt when I must ask some mumbling young person to repeat a sentence because I do not clearly understand what he is saying. When a young person spills his coffee, it is just a mistake; but when I spill mine, it is because I am shaky and the person at hand may be irritated. The doctors say, "At your age you should not undertake this kind of treatment," or an onlooker will say, "Just look at the old fool trying to be romantic." Once it was said of children, "they should be seen and not heard." This same attitude of contempt has now been transferred to older people. The attitude seems to be, "Shut up, Dad. Things have changed since you had anything to do with them."

This attitude does not always

Dr. Gresham, President Emeritus and Distinguished Professor, Bethany College, Bethany, West Virginia, here reveals, in part, his plans for those busy years ahead.

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have a hostile edge. It may be a benign compassion which increases the intensity of the sting. It is easier to face contempt than such an attitude as, "Oh, there, there now; of course you feel that way because you are old." A person who is pitied is diminished in self-respect far more than a person who is scorned. Members of one's own family may be swept up in the conventional attitudes toward aging to the extent that they feel a condescending attitude of pity toward anyone past sixty-five. What could be more infuriating to a highly competent septuagenarian than to have one say, "How remarkable. You still drive a car?" or "You are in your seventies. Do you still give lectures?"

There are times when those of us who are old need sympathy and pity and we do well to accept it with grace and gratitude; but there are other times when we deserve respect and we resent being exposed to the so-called "compassion for the old" which is about the most obnoxious attitude anyone could hold for us. When we are capable and qualified people, we should be regarded as equals where this is appropriate, superiors where we deserve it, as inferiors when the appraisal is just; but in every case, we have the right to stand on our own feet and be honorable, respected people.

The young people I know, of course, reflect none of these attitudes, but this is a personal matter. My students regard me as a contemporary. The contempt appears only in impersonal relationships.

A little bit of common sense will tell any reflective person that many people have a whole new surge of vitality, interest and ability in their sixties. This is particularly true for people in public life, people in business, professions and in finance. The stereotype of the spent old person at sixty is about one hundred per cent wrong. Yet older people face major discrimination when they attempt to market their talents. I have been shocked by my contemporaries in law and medicine who are still active in their professions who say to me, "Oh, at your age, I do not think you should take on anything else." Here are intelligent people who would not give up their own responsibilities for anything, advising their patients and clients to live by the distorted norms.

These norms, however, are changing. Once the old people in America were few, but now we are many. With the increase in life expectancy and the interesting configuration of population growth, old people have come to be a powerful political force. Now eleven per cent of the American people are past sixty-five. As the numbers have been increasing, so have the skills and methods of political clout. Many old people have

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come to be self-conscious exponents of a minority seeking a voice in public affairs. The large associations of people in their sixties or older are as numerous and active as any associations in America.

Certainly I cannot speak for other people who have lived six or seven decades; but I can speak for myself and, by conversation, insight and study, reflect the attitudes and opinions as well as the needs and interests of many contemporaries. Some of the points that I make here may be widely disputed, as I find myself disputing some of the most vigorous attempts of some aging activists to get special interest legislation approved by the Congress. The privilege of differing viewpoints is certainly an earned prerogative of the mature. When I say we want these things, I really mean that these are the things that seem to me paramount for those of us who have reached the sixties and beyond.

Liberty

Who has earned the right to personal and political freedom more than a person who has lived through six or seven decades? Some people do not like liberty and some have become so inured to tyranny that it seems comfortable. Taking all this into account, I am still convinced that I speak for my contemporaries when I say we dislike all these so-called "mandatory" programs that affect our lives. We dislike the arbitrary nature of Social Security, but after we have paid the tax, we resent the unfair discrimination with regard to earning power. We resent the unjust discrimination written into the income tax law which denies older professionals deductions for activities needed to preserve their professional image and self-esteem. Nothing could be more distasteful than a law requiring a person to work, or not to work, until a certain age regardless of what that age might be. What is wanted is freedom to work as long as one wishes and for as long as anybody wishes to employ him.

This same resentment against the loss of individual liberty holds for such things as the consumer movement as it bears on senior citizens. No self-respecting old person prefers decisions out of Washington to those of his own taste and inclination. It should be my privilege to choose the food I wish to buy. Nothing could infuriate me more completely than to pay taxes, against my will, to employ some pretentious ass to sit at a desk in Washington and tell me what I should purchase. I find the whole idea revolting and many of my contemporaries feel the same way. I keenly resent being told what kind of car I can drive, when I can drive it and how fast, assuming of course that I stay within the bounds of propriety or what is right and

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decent and safe for everybody involved.

Even more keenly, I resent being told what drugs I am free to purchase. It is the duty of government to require clear labeling and to vigorously prosecute those who, by force or fraud, misrepresent any product. It is most certainly not the function of the government to forbid me the use of saccharin, for example, when I have been told what is involved in using it. The paternal "Papa knows best" attitude of the Food and Drug Administration is beginning to infuriate all of us who have been around for awhile.

I greatly admire Maggie Kuhn and her astonishing success in organizing the Gray Panthers. I could not agree with her more with regard to "those rotten myths" about old people. We are not all alike. We are not all crotchety, with shriveling brains and diminishing gender. However, I have far less faith in government to solve our problems than has she. I see her pressing for a consumer movement with a new government bureau for consumer advocacy. This will only produce another layer of bureaucracy and consequent inflation and thereby damage all of us who are aging.

I long for individual liberty; not benign regimentation that robs me of my livelihood by enlarging the government until I am taxed into penury. I believe that many of my contemporaries feel the same way. The only march against the government I could lead would be one which bears a placard, "Get off our backs." We would be perfectly able to solve our own problems if we had some liberty and could get some relief from inflation.

Inflation, the Enemy of the Old

By all odds, the most horrendous threat to old people in America is inflation. The word is poorly understood by most people, even though it has a very simple origin. The word "inflation" simply means inflation of the money supply whether it be by printing press or credit. The result of increased supply is higher prices and wages. The reason governments all over the world turn to inflation is that they find it more palatable to increase the available money than to increase taxes when they need additional revenues to pay for expensive government projects.

At one time, the amount of money governments could make available was limited by some kind of standard such as gold or silver. When these standards were abandoned, governments felt free, when pressed, to increase the money supply at will with absolutely ruinous economic consequences in some cases—such as once happened in Germany, Brazil and even France. Inflation is worldwide and has been going on for a long time. The rise in wages, for

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example, is dramatically shown by the nursery rhyme:

> She shan't have but a penny a day
> Because she can't work any faster.

Since Elizabethan times, prices and wages have risen consistently even though there were periods of deflation and falling prices. In my own boyhood, the standard wage for help on the ranch was a dollar a day, room and board. There was a common chuckle about the Irishman who was so pleased with his new wage of a dollar a day that he boasted, "If I work a million days, I'll have a million dollars!" The recent settlement of the United Mine Workers strike left some of my friends who work in the mines disappointed because they did not quite get the one hundred dollars a day they were requesting. An increase in wages from a dollar a day to one hundred dollars a day in less than a century suggests the impact of inflation. Most of this impact has come in the recent past.

I have called inflation the greatest enemy of old people because it is a thief that takes away the living earned by a lifetime of hard work. Economists have made the word "inflation" so complicated that many old people do not understand it even though they are robbed by it. What they do understand are the skyrocketing prices that inflation has brought about. Not long ago, a retired couple could go out for dinner for less than ten dollars for a first class meal including refreshments and gratuities. Now the same couple may face a check of twenty-five dollars minimum to more than one hundred dollars in some places. A car that fairly recently cost four thousand dollars is now selling for eight to ten thousand dollars. A loaf of bread, which once cost ten or fifteen cents is now pushing up toward seventy-five cents or a dollar. Everyone understands the meaning of skyrocketing prices when one's hard-earned retirement income is frozen at a previous level. The retirement income that once meant a life of ease and plenty now means a life of poverty and anxiety.

It is time for those of us who are older to understand what powers these rising prices. The principal villain in all inflation is the government itself, since it is the sole source of the money supply. That money supply gets out of hand because the government needs more and more money to carry on more and more projects. Politicians are enamored of voting more money to pay for projects to assist or please people, since this is the way for a politician to get votes when running for public office. Bureaucrats are eager to increase their position and power by developing larger and larger organizations to carry on bigger and more exciting programs.

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Wartime Spending

When an uncontrollable catastrophe such as a war comes along, inflation simply goes wild. Prices and wages rise and the people in government, for very good reasons from their standpoint, do not let them come down when the war is over. People in business or industry likewise look with disfavor on falling prices. Nobody likes to see his wage reduced. One round of inflation follows another and all of us are robbed.

The dollar today will purchase just over half what it would have ten years ago. All of us are going broke at an alarming rate of speed.

I feel sick at heart when I hear my friends talk about bringing inflation down to six or seven per cent. Think of an old person with his money in a savings bank at five per cent and losing one or two per cent of his capital every year and realizing no true income whatever on his money. To be sure, he has a dollar and five cents at the end of the year, but the purchasing power of that has fallen below his original investment.

Adding to the problem of rising prices is the additional problem of increasing taxes. Rising prices and increasing taxes are the jaws of the vise in which all of us are caught. These taxes rise because special interest groups ask more and more from government. Alan Meltzer, my cherished colleague who teaches economics at Carnegie Mellon University, has pointed out that governments grow because benefits are concentrated and costs are diffused. This is a brilliant way of saying that when some special interest group, such as those of us in education, ask for a government subsidy, the subsidy means a lot to us but does not cost anybody very much when it is spread over the entire nation. The people who have no interest in education are not inspired to mobilize against the program.

When those of us who are in education push hard enough, everybody else goes along and we have an additional government program. Everybody gets into the same kind of an act. Depressed industry demands help; labor unions demand help; minorities demand help; environmentalists demand help; safety crusaders demand support, the military requires more and more, and those of us who are older get into the act with a series of new requests. Layer after layer of government bureaucracy is added and the costs of government build to the point where more and more taxes must be levied. Even this will not suffice and the money supply is increased to cover the expense of new projects not covered by tax revenues. The vise thus squeezes the old person until he is forced onto welfare. This, in turn, increases the burgeoning costs of government.

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Mobilize for Less Government

What can we do about this vicious situation? The answer is that we can mobilize for less government instead of more, for less taxes instead of more benefits. There is a rising revolt against the taxes that are robbing old people of their homes. Everywhere a person turns, he is taxed: he pays sales tax, he pays a tax on gasoline and any number of specific items, he is taxed on most of the services, taxed on the theater, at the restaurant, at the hotel. He pays tax on his property, his travel, his federal income tax which may be almost confiscatory to many old people. In most places, he pays state income tax and sometimes local tax in addition. It is time for us to let the world know that there can be no "goodies" from the government without taxes that come out of the hides of the people.

Many of us are enchanted today with such expensive government programs as come to us from those crusaders who want to protect the environment, the consumers, the minorities, the schools, the cities, the railroads and all of the many services that are proclaimed as highly useful and required of any socially responsible nation. Many of these are good and necessary, but some of them we must learn to do ourselves rather than create expensive government bureaucracies that will drive old people into ruin and poverty in the next few years unless some remedy is found. Old people, more than anyone else, should know that somebody has to pay into the government before the government can pay anything out to anybody.

The great challenge for those of us who are past middle age is that we bring some kind of compelling influence to bear against our enemy which is inflation. Since government is the principal factor involved, we must let our politicians know that we need less government instead of more, less intervention, and less meddling in our lives. We can no longer afford the luxury of being taxed to death on the one hand and inflated to death on the other. We do not look with favor on becoming destitute wards of the state when we know that the state, itself, is on the way to bankruptcy. We seem to have no satisfactory alternative to an all-out fight against inflation. The best people in the government realize the predicament and may even help our cause.

If I could speak to the appropriate people in the government in behalf of my contemporaries, I would say, treat us with respect, give us an opportunity to work and to learn, protect us from crime and, beyond that, as much as possible reduce public expenditures and pursue monetary policies that will reduce inflation. The things we lose by the

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robberies of criminals are nothing in comparison to the amount we lose when we are robbed by our own government. Inflation is an insidious form of robbery. Anyone who has seen his fixed income dwindle at such a rate as to threaten his livelihood has most certainly been robbed.

I am not content to join with my contemporaries in a most pleasant game, mentioned by Dr. Eric Berne, called "Ain't it Awful?" We love to gather round the watering places and discuss public affairs. One mentions his taxes and we all say, "Ain't it awful?"; another mentions inflation and we all say, "Ain't it awful?"; another mentions crime and we all say, "Ain't it awful?". And God knows we have fun but we get nowhere. We would do well to give up the game and go to work.

Make Your Own Climate

I have said that the social and political climate in America is not fair to the aging and this is true. This does not imply that the aging fare any better in Western Europe. For the most part, they are much worse off. There are some cultures where old people are venerated but this, too, is a distortion of justice. I call to my contemporaries to rise above the difficulties that confront old people today and to make something of the rest of their lives just as I intend to make something of mine. The most inspiring story can be told of aging people who earn enough and invest wisely enough to withstand inflation; people who are strong enough to overcome all the stereotypes; people who are public spirited enough to exercise some influence on public opinion; people who have put the lie to those who say "old people can't do anything." All around me are people who have experienced the surge of the sixties and are having the best time of their lives.

It is much easier to sit around and complain than it is to perform. Anybody who lives in America has sufficient liberty to make something of his own life. Retired people have the best opportunity of all. They can learn something and thereby disprove a stereotype; but, even more, enjoy the thrill of discovery. They can create poetry, music, sculpture, history, ax handles, jigsaw puzzles, gardens, cuisine, clothing, gadgets and a whole multitude of things that bring profit as well as joy. People differ in talent. Some are best fitted to lead while others prefer to be good followers. Both are important. Older people have an opportunity to exercise true leadership in government, community, religion and secular affairs. There is no time like now for an aging person to make his life count for something. Old age is not merely golden years, but golden opportunity.

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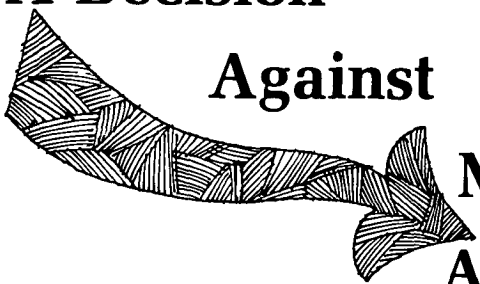
A Decision Against Meritorious Achievement

Anne Wortham



ANY fair-minded person ought to applaud the recent Supreme Court decision to uphold the California Supreme Court's ruling that Allan P. Bakke should be admitted to the Medical School at the University of California at Davis on the basis that ethnic and racial quotas are unconstitutional according to the 14th Amendment. But one would have to be quite concerned that, in reversing that part of the California Court's ruling to prohibit the university from establishing future affirmative action programs that take race into account, the Supreme Court *did not* rule affirmative action unconstitutional. It was apparently in that spirit that during the following week the Court refused to review the American Telephone and Telegraph (AT&T) affirmative action plan of goals and timetables for hiring and promoting women and minorities. Under the plan, if hiring targets are not met the company may pass over job candidates with greater seniority or better qualifications in favor of those in the underrepresented groups.

By declining to hear the case the Court confirmed the legitimacy of the AT&T plan and thereby underscored a separate majority opinion, as written by Justice Brennan, that "Government may take race into account when it acts not to demean or insult any racial group, but to remedy disadvantages cast on minorities by past racial prejudice, at least when appropriate findings have been made by judicial, legislative or administrative bodies with competence to act in this area. . . ."

It seems that the Justices hold the widespread opinion that one is de-

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meaned or insulted only when he is discriminated *against* because of race; but there are those of us who are insulted, if not demeaned, when we are *discriminated in favor of* because of race or other equally irrelevant classifications. As a member of both the racial and gender groups so favored, I reject the opinion that preferential treatment of racial minorities should be allowed if it serves a social good. There is nothing humanitarian in a policy that uses racial classifications to "further a compelling government purpose," as the Justices put it. Any government purpose which must be served in such a manner may be suspect as having sinister motives. It may increase the numbers of those employed from underrepresented groups in industry and education, but at what price?

"What affirmative action has done is to destroy the legitimacy of what had already been achieved, by making all black achievements look like questionable accomplishments, or even outright gifts," writes black economist Thomas Sowell in the April 1976 issue of *The Public Interest*. "Here and there, this program has undoubtedly caused some individuals to be hired who would otherwise not have been hired—but even that is a doubtful gain in the larger context of attaining self-respect and the respect of others."

For blacks like me, the supreme irony of having to contend with affirmative action measures is that we grew up in a tradition which prepared us for precisely the opposite—that tradition which measured achievement in terms of merit as evidenced by one's skill, knowledge, experience, interest and attitude. It was, we were told, "the American way"—the practical expression of our culture's devotion to human individuality. Now, we are told that virtue lies not in such aspirations as color-blindness and meritorious achievement, but in the social good of implementing race-conscious programs to remedy the effects of racism.

As I contemplate the Bakke decision, my mind is crowded with reminders of all that went into my adherence to "the American way." I hear my father's repeated admonitions to his five children that we grow up to be independent, self-supporting citizens. I see him working long hours and sacrificing to provide for our education, determined that he would do so despite Jim Crow and without outside assistance. I hear this self-educated man, who at one period made a salary of only $50 a week, telling us that our education was his investment in the future. "I don't want my girls to work as domestics or my boys to be ditch diggers," he would say. And always there was the reminder we

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hear from him to this day: "Remember, your record follows you."

The society he was preparing me for was one in which merit was the basis of achievement. It was also one in which racial discrimination and prejudice were prevalent; but in addressing this issue, black fathers like mine taught their children a rule of thumb taken from the words of Booker T. Washington:

> Any individual who learns to do something better than anybody else—learns to do a common thing in an uncommon manner—has solved his problem, regardless of the color of his skin. . . .
>
> In the long run, the world is going to have the best, and any difference in race, religion, or previous history will not long keep the world from what it wants. . . .

Such was the simple but noble faith in the just rewards of quality with which these fathers and their fathers before them sent their children to colleges and universities across the country. We went forth lured by the American dream and willing to pay the price of being twice as good as our white counterparts in order to compete with them. But we wanted nothing to do with tokenism—that despised practice which A. Philip Randolph once called "that veneer of acceptance masquerading as democracy." How could one have any pride in being the "windowdressing" of some white man's conscience? We wanted no favors, no double standards, only justice and the freedom to create our opportunities in our own way.

This tradition, though not always prevalent in certain sectors of the black community in the country, was nevertheless as potent a force among blacks as it was to any New England Yankee. Writes Sowell: "When people ask why blacks cannot pull themselves up the way other oppressed minorities did in the past, many white liberals and black 'spokesmen' fall right into the trap and rush in to offer sociological 'explanations.' But there is nothing to explain. The fact is that blacks have pulled themselves up—from further down, against strong opposition—and show every indication of continuing to advance."

It is true, as Sowell notes, that the advance of blacks "accelerated at an unprecedented pace in the 1960s, once the worse forms of discrimination had been outlawed and stigmatized." But as the 60s evolved into the 70s it was in the interest of liberals and black spokesmen to ignore that part of the advancement of blacks which is the product of generations of struggle—*without* anti-discrimination laws. It was with this one-sided view of black history that Lyndon B. Johnson told the 1965 graduating class at Howard University:

> You do not take a person who for years has been hobbled by chains and liberate him, and then say, "you are free to com-

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> pete with all the others," and still justly believe you have been completely fair. . . . Thus it is not enough to open the gates of opportunity. All our citizens must have the ability to walk through those gates.

Johnson challenged those who might offer the counterclaim that if other Americans could overcome their disadvantages without special equality-of-result legislation, so could Negroes. He cited a long list of statistics indicating the gap between the opportunities of Negroes and whites and said:

> The Negro, like these others [white minorities], will have to rely mostly upon his own efforts. But he just cannot do it alone. For they did not have a cultural tradition which has been twisted and battered by endless years of hatred and hopelessness, nor were they excluded—these others—because of race or color—a feeling whose dark intensity is matched by no other prejudice in our society.

This distorted view of black history supported by biased research, statistical "explanations," and a great deal of ignorance has now been made "official" by the 1978 Supreme Court. With the memory of past discrimination so fresh in my mind, I am profoundly resentful that I, along with every other American, must bear the burden of this new stereotype of my race—that I cannot overcome the circumstances of my forefathers on my own and in my own way; that the only way I can compete with a white person is by weighing him down with penalties for the sins of his race and the government against my race. What an insult to me—and, oh what injustice to the innocent white person! Neither of us is responsible for the cultural heritage that stretches across the centuries behind us; yet both must be burdened by it. I am branded as incapable of walking through the gates of opportunity on my own, and he is branded as the source of my incapacity.

But I protest! It was not legislative decree but my parents who brought me to the starting line of a life of productivity, achievement, liberty and happiness. Oh, the richness of that which was handed to me and to other black children of an earlier time—that time of discrimination and prejudice and segregation. I recall my mother, a child of the Depression, teaching me how to read and write; I recall those hours I spent at an old Underwood typewriter learning "a trade," as my father put it; I recall those domestic jobs I took at $3.00 a day to purchase classical recordings or a new dress; I recall my father making my brothers take newspaper routes so they could "learn how a dollar is made." I recall the teachers who encouraged me and those I admired. And I recall those special occasions, such as Negro History Week, when I

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sang with the school choir the "Negro National Anthem," written by the Negro poet James Weldon Johnson in commemoration of Lincoln's birthday:

> Lift every voice and sing
> Till earth and heaven ring,
> Ring with the harmonies of Liberty;
> Let our rejoicing rise
> High as the listening skies,
> Let it resound loud as the rolling sea.
> Sing a song full of the faith that the dark past has taught us,
> Sing a song full of the hope that the present has brought us,
> Facing the rising sun of our new day begun
> Let us march on till victory is won.

I recall being voted by my classmates as "The Most Likely To Succeed." And I recall the honor of being placed on the Danforth Foundation's I-Dare-You Honor Roll and receiving an inspiring little book written by William H. Danforth, founder of Ralston Purina Company, who cared enough about young people to say to them: "I dare you!" I shook hands with the challenge in Danforth's list of dares and took off in search of excellence, wisdom and greatness. In those days, we really believed in such things. *Any*body could believe them, regardless of his race, color, gender, class, or national origin.

Now I find that I was fueled by the spirit and meaning of those aspirations only to have the Supreme Court stamp my racial identity as the symbol by which my fellowmen are to judge my achievements as gifts from the State. Fortunately, there have been enough intervening years between my high school years of the fifties and today for me to have acquired that record of performance and authentic achievement my father was so insistent that I establish. But I shudder to think of the credibility robbed from those younger than I who do not have the benefit of an educational or employment history prior to the establishment of affirmative action in 1965. How are they to contend with the new prejudice against blacks who, because of their race, are suspected of being recipients of "conferred benefits"?

There can be no greater insult than to free a man, then tell him that according to the statistical profile of his racial group and interpretations of his cultural heritage, he will not be allowed to exercise that freedom in his own way, but must be spared the risks of competition, treated "preferentially," and doomed never to know whether he could have advanced alone. Whites could not be more mistaken than to think that such a policy will improve race relations. And blacks could not be more self-deceived than to look upon such a policy as having anything remotely to do with their liberty and self-respect.

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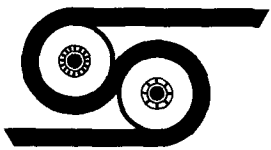
Manuel F. Ayau



The Ideology of Underdevelopment

WHAT should we do? Where begin? Where invest our limited time and resources in the most effective way?

Those are the questions a small group of us in Guatemala were asking ourselves when we decided to face up to the problem of underdevelopment. How could we get the best possible leverage for our efforts to raise the level of living in our country?

Perhaps this example will help illustrate the problem we faced. A group of doctors were concerned about the lack of medical facilities in our rural areas. And they wanted to start a medical school. But they seemed oblivious to the fact that the people of the rural areas lacked the economic resources to support a doctor's practice. They failed to see that medical service, at bottom, is an economic problem. This is why one may find Ph.D.'s driving buses in underdeveloped countries. And this is precisely what we wanted to avoid—the well-intentioned but wasteful investment of our human and material resources.

Our studies led to the conclusion that underdevelopment is primarily an ideological problem, that unsound ideas inhibit the increase of wealth and well-being. This is what brought us to the founding of Universidad Francisco Marroquín in Guatemala in 1972. If the development of individuals and of a country depends upon a better understanding of economics, of individual rights, of the political, ethical and social theories that make up the philosophy of freedom, then the most efficient use of our scarce resources would be to teach these values at the highest possible intellectual level. Thus, we chose the university as a means to change the

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ideological view of the world which seemed to be the root cause of poverty in our country.

We do not expect this to bring an instant victory for common sense. Our little university faces stiff competition from well-known professors of prestigious universities and from well-financed international organizations prescribing solutions to poverty that are based on a false ideology, though the proponents claim to be objective, neutral, and strictly scientific.

Unsoundly Motivated

Let us assume that the people entrusted with policy and administration of the World Bank, the United Nations, the International Labor Organization, the Alliance for Progress, and so on are well-meaning and reasonably intelligent people. So the question is this: Why have they failed so dismally in spite of the enormous resources at their disposal? The explanation might well be that their ideological position is unsound. And if their diagnosis is faulty, their remedies are not likely to help, but rather may aggravate, complicate, and make chronic the disease. So let us examine some of the notions that guide them.

It is held, for instance, that countries that are rich are rich due to their natural resources. Whereas any owner of a natural resource is wealthier with it than without it, this does not prove that natural resources are a necessary condition to wealth. There are many countries without appreciable resources, such as Switzerland and Holland and Japan, that are rich. There are various other countries that have been generously endowed by nature but most of their people are impoverished.

Also untenable is the premise of a "vicious circle of poverty," the notion that the poor stay poor because

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This article is slightly condensed from a paper delivered before Trustees and guests of The Foundation for Economic Education at a dinner meeting in Tarrytown, N.Y., May 15, 1978.

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they cannot accumulate savings to generate the capital necessary to substantially increase productivity. The fact that there *are* rich countries denies the very idea. Were not the rich poor at one time? Were not Germany and Japan quite impoverished as recently as thirty years ago? Their rapid reconstruction was not accomplished by exploiting colonies, for they had none. And that explodes another of the notions utilized to explain poverty—that one nation grows rich by exploiting another.

Historical facts also refute the fallacy that to have economic growth the economy must be planned. Who planned the economic development of the U.S., of England, of Japan, of post-war Western Germany or of Argentina up until the onset of the destructive ideology of central planning? The economic history of those countries proves to anyone not blinded by ideology that governmental planning is no necessary condition for economic development. Indeed, one could even relate the *decrease* in the rate of wealth creation to the extent that countries have undertaken governmental planning of their economies.

Another prevalent historical error is that we—in Latin America—are poor because in the past capitalism did not work for us. I ask: When and where did we have a free market capitalistic economy? And I answer: In those few places where for a brief time it was tried, the results were outstanding. The problem is precisely that we have *not* had the competitive capitalism that is blamed as the cause of our poverty.

Exploited by Whom?

It is also held that we, the so-called banana republics, were exploited by the United Fruit Company. I recall a conversation I overheard at a party, where a friendly communist was explaining how the United Fruit Company had taken out of Guatemala millions of dollars. A person who had worked with the fruit company in his youth responded that to his knowledge the company never took a penny out of Guatemala; the only thing they took out were bananas. They brought money in—capital—to draw laborers from lower wage occupations to their banana plantations. Nevertheless, people continue to ignore the obvious and believe that we were exploited.

We are not poor because our laborers are inept, or fall below the quality of laborers in other countries that have prospered. In general, I would say workmen in Guatemala are above average in learning and working ability, when conditions demand it.

Nor are we poor because we lack technical know-how. Technical knowledge now is available to any-

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one who wants to obtain it. And we have the additional advantage that to reach a modern level of production, we do not have to wait for better technology than already exists in the market, or invent it, or spend millions for research. All the know-how we need for the most significant advances already is available to us from developed countries.

What we lack are two things: first, a system that is conducive to efficient economic allocation of human and material resources and to the generation of capital; and second, more capital to increase productivity and create wealth.

The system, of course, is capitalism, and it is there waiting to emerge all the time. So why is it rejected and deliberately prevented from emerging? Incidentally, it is, as we know, the only system that promotes and builds the qualities of individual character that are most conducive to progress: self-reliance, frugality, responsibility, and respect for the rule of law.

Capitalism Maligned

So why is it rejected? On one hand, there is a practical objection to allowing individual freedom of production: Capitalism is considered wasteful, inefficient, and in any case, too slow: we cannot afford, we hear, politically speaking, to go slow, and so we cannot just let things happen when and if they happen. We must *make* progress. Not just let it happen. On the other hand, there is an ethical objection: it is thought cruel and unjust because it results in economic differences called inequalities.

The first objection as to the impracticability of the market system in Less-Developed Countries (LDCs) has greatly disturbed me because the scientific refutation is available to all. After all, the market system is not someone's invention. It is what goes on naturally if it is not prevented deliberately. And economic theory is nothing more than an explanation of how it *does* work, how resources are allocated *through* the price system. We are at liberty not to like the way the world is, but lamentations are utterly useless and will not change the world. The only argument which would deserve serious consideration would be the proposal of an alternative system. But, as far as I have been able to determine, no one has yet proposed an alternative system for allocation of resources. Marx did not. Oskar Lange, in the thirties admitted it, and today it constitutes the "unspoken" problem of central planning or socialism.

No one knows, in theory, much less in practice, how this alternate system would work. The authorities lack the criteria, in the absence of private property and free exchange, to establish a substitute for the price

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system. Such a substitute is needed to permit them to compare alternative methods of production so as to use each resource in the way that makes the maximum contribution to consumer satisfaction. This is most certainly not the system socialist countries use today—they simply copy prices of the outside semi-capitalist world.

Until such an ingenious mechanism is incorporated into planning schemes, we can state correctly that socialism—as a system of social organization—has not yet been proposed. Yet the people of the world are killing each other, some in favor of socialism, others against it, but both assuming that it has already been proposed *as a system,* and therefore it is a tenable system of social organization. When this senseless tragedy is recognized I believe it will become, to historians, the distinguishing characteristic of this century: People killing each other over something neither side could describe.

Planning Without Prices!

The question, of course, is not how you plan when you *do* have prices available from outside the system; the question is how do you arrive at prices without any reference to prices that have come about through free exchange, i.e., from the existence of private property.

Unless *that* is explained, a planner cannot know what he is doing, he can't compare values of inputs with outputs. And if the method cannot be described, socialism is just a gleam in the eye of the frustrated.

So, from a strictly practical point of view, we know that whereas the market does not produce instant wealth, it eventually can and does produce it. And so far we've been offered no clear alternative to even consider. Of course, if the market is prevented deliberately from working, it will not produce. And unfortunately, not only is it being prevented from working, but it is being blamed for *not* working.

There is really nothing original or unique in the ideology of underdevelopment. Most of the notions are imported from countries that should know better; and they are being imported by way of programs that are, ironically, implemented with the intention of generating development.

One of the characteristic differences between developed and underdeveloped countries, however, is that whereas it will take a great deal of debate for the government of the U.S., for instance, to take over one railroad company (a piecemeal and eroding process), when an LDC decides overnight to go into the rail transport business it takes it all at once. When it decides that although electric power is a desirable commodity, it should be a non-profit

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activity, it thereupon decrees that it is against the law to peacefully manufacture and voluntarily distribute this desirable commodity. It takes over all power production notwithstanding all the productive and desirable activities that, from then on, cannot be economically done for lack of competitively priced power to industry. Governments in LDCs do not just put a power plant here and there. First they prohibit profit-making power generation, whether they are in a position to provide it or not.

An Illogical Barrier

This procedure is not logical. It is irrational to prohibit activities considered desirable on grounds that because they are desirable the government ought to provide them. Logic and consistency would demand that if an activity is considered so important that the government must step in to perform it, it should not be made illegal for someone else to contribute voluntarily to the same ends. The policy is not logical or economic; it is ideological. And because of it, power costs are extremely high, reducing the competitiveness of all industrial activities in LDCs.

It is inconceivable today that anyone would consider going voluntarily into the electric power business. That disincentive alone is sufficient to maintain underdevelopment, and generally, the same applies to all communication activities: air and ocean transport, ports, telephones. Whereas such a venture once constituted a business opportunity, it is no longer even a possibility. This is not due to economic factors. It is the result of ideology. How can desirable activities become illegal acts other than as a result of ideology?

Hampering Education

Consider education. Everyone regards it a desirable activity. Parents generally want their children to be better educated than themselves. There is plentiful evidence that they will make great sacrifices to this end. But their children cannot get the education the parents think they need. A high government official in my country remarked that our education programs are not well-oriented because they tend to prepare everyone for college whereas most will never go, and in fact should not go, to college. And yet, he did not disagree with the policy of setting a maximum tuition charge for private schools, low enough to drive many out of business (even though private high schools serve 50 per cent of the student population and in many cases offer better and more pertinent education than the government can provide).

The imposition of maximum legal tuition rates is obviously ideological. But there are more serious ef-

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fects of the ideological confusion of the elite in education: their confusion actually *prevents,* to a very large extent, proper education. In the social sciences, "book burning," in a figurative way, is prevalent for a very natural reason: in any hierarchical organization it is only natural that the competence of the personnel hired to teach, and the suitability of the books used, be determined by their agreement with what the hiring authorities think is valid or true.

When the uniformity of thought required in the hierarchical organization is entrenched, its members cannot afford to have their competence questioned; they instinctively or deliberately exclude theories that might expose members of the hierarchy as incompetent. Thus, the ideology of their expertise is protected, and competitive ideologies are excluded.

Interfering with Wages

Consider this example of labor legislation adopted through the official recommendations of the International Labor Organization: Workers get severance pay when fired for any cause not attributable to them. If the company goes broke or loses a contract, the cause is not imputable to the worker, so he must be paid. Severance pay is calculated on the basis of his last wage, multiplied by the number of years of employment. The object is to create job security and supposedly avoid injustices.

Naturally, as workers accrue severance pay they lose their mobility, because the cost of leaving a job voluntarily is to lose one's severance pay. Thus, there is no incentive for an employer to raise wages, whether to hold present workers or to attract new ones. As a result, the worker has no bargaining power. The lack of mobility of the labor force prevents relocation into more productive jobs and thus lowers the output of the whole economy and decreases everyone's real income. The implementation of much of this type of legislation in LDCs has cost the U.S. taxpayer many millions of dollars through the financing of ideologically impoverishing institutions such as the ILO or the United Nations.

The ideological hostility to the market system has also caused most countries to practice an economically isolationist tariff policy. In order to understand the impoverishing effects of obstructing the international division of labor, one must have a clear understanding of the law of comparative advantage. It is necessary to understand why, in a free exchange, both parties gain, and that some people's wealth is not the cause of others' poverty. In other words, there is no such thing as exploitation in a free exchange. Obviously, the recognition of this fact

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alone would utterly shatter collectivist philosophy and so the truth must be suppressed. The result is isolationism, underdevelopment.

Capital accumulation, the most important factor in development, is heavily taxed and inhibited, when not destroyed, for ideological reasons. One can trace directly the destructive attitude toward foreign investment, energy policies, mining policies, and so forth to its ideological source.

Changing the Ideology to Open the market

The hostility to the market system which exists all over the world in varying degrees is especially prevalent in LDCs. Many LDCs that have tried the welfare state have had to start again from scratch, usually with the only type of government that does not consult the people: dictatorship. Dictators are not necessarily unpopular, and many govern with the wholehearted support of the majority of their people, as in Chile and Argentina. The reason is not hard to find. If what was supposed to become a democratic welfare state destroys prosperity and the security of life and property, people will welcome a savior even if he becomes a dictator. He doesn't raise welfare expectations; he promises law and order. If he pursues the welfare course, conditions deteriorate, and this opens the opportunity for his rivals to overthrow him. We have seen this happen over and over again. Many dictators become oppressive and ruthless in order to stay in power longer, but sooner or later, their rivals muster enough support to take over. This support is forthcoming when people feel they are becoming poorer in real terms or relative to unrealistic expectations, and when disorder is increasing. Therefore, a socialistically inclined government is inherently unstable.

Until this destructive socialistic ideology is exposed as false and displaced with an appreciation of the capitalistic market economy, there is no chance for a people or a nation to develop. This is why we founded the Universidad Francisco Marroquín in Guatemala. And the intervening seven years of operation strengthen our conviction that we chose the most effective way to reach our objective.

IDEAS ON LIBERTY

Wisdom

THE ESSENCE of the past is experience; the essence of the future is opportunity; and the essence of wisdom is to properly connect the two.

JACKSON D. PEMBERTON

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Ludwig von Mises

The Individual in Society

THE words freedom and liberty signified for the most eminent representatives of mankind one of the most precious and desirable goods. Today it is fashionable to sneer at them. They are, trumpets the modern sage, "slippery" notions and "bourgeois" prejudices.

Freedom and liberty are not to be found in nature. In nature there is no phenomenon to which these terms could be meaningfully applied. Whatever man does, he can never free himself from the restraints which nature imposes upon him. If he wants to succeed in acting, he must submit unconditionally to the laws of nature.

Freedom and liberty always refer to interhuman relations. A man is free as far as he can live and get on without being at the mercy of arbitrary decisions on the part of other people. In the frame of society everybody depends upon his fellow citizens. Social man cannot become independent without forsaking all the advantages of social cooperation.

The fundamental social phenomenon is the division of labor and its counterpart—human cooperation.

Experience teaches man that cooperative action is more efficient and productive than isolated action of self-sufficient individuals. The natural conditions determining

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In the tradition of the Austrians Carl Menger and Eugen von Böhm-Bawerk, Ludwig von Mises (1881-1973) did more than any other to develop and bring to world attention the science and system of economics applicable to the purposive individual as *he acts in the real world*. This article is extracted from his book, *Human Action* (Yale University Press, 1949; Regnery, 1966).

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man's life and effort are such that the division of labor increases output per unit of labor expended. These natural facts are: (1) the innate inequality of men with regard to their ability to perform various kinds of labor, and (2) the unequal distribution of the nature-given, nonhuman opportunities of production on the surface of the earth. One may as well consider these two facts as one and the same fact, namely, the manifoldness of nature which makes the universe a complex of infinite varieties.

The division of labor is the outcome of man's conscious reaction to the multiplicity of natural conditions. On the other hand, it is itself a factor bringing about differentiation. It assigns to the various geographic areas specific functions in the complex of the processes of production. It makes some areas urban, others rural; it locates the various branches of manufacturing, mining, and agriculture in different places. Still more important, however, is the fact that it intensifies the innate inequality of men. Exercise and practice of specific tasks adjust individuals better to the requirements of their performance; men develop some of their inborn faculties and stunt the development of others. Vocational types emerge, people become specialists.

The division of labor splits the various processes of production into minute tasks, many of which can be performed by mechanical devices. It is this fact that made the use of machinery possible and brought about the amazing improvements in technical methods of production. Mechanization is the fruit of the division of labor, its most beneficial achievement, not its motive and fountain spring. Power-driven specialized machinery could be employed only in a social environment under the division of labor. Every step forward on the road toward the use of more specialized, more refined, and more productive machines requires a further specialization of tasks.

Innate Inequality Within Society

Seen from the point of view of the individual, society is the great means for the attainment of all his ends. The preservation of society is an essential condition of any plans an individual may want to realize by any action whatever. Even the refractory delinquent who fails to adjust his conduct to the requirements of life within the societal system of cooperation does not want to miss any of the advantages derived from the division of labor. He does not consciously aim at the destruction of society. He wants to lay his hands on a greater portion of the jointly produced wealth than the social order assigns to him. He would feel miserable if antisocial behavior were to

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become universal and its inevitable outcome, the return to primitive indigence, resulted.

Liberty and freedom are the conditions of man within a contractual society. Social cooperation under a system of private ownership of the means of production means that within the range of the market the individual is not bound to obey and to serve an overlord. As far as he gives and serves other people, he does so of his own accord in order to be rewarded and served by the receivers. He exchanges goods and services, he does not do compulsory labor and does not pay tribute. He is certainly not independent. He depends on the other members of society. But this dependence is mutual. The buyer depends on the seller and the seller on the buyer.

Self-Interest

The main concern of many writers of the nineteenth and twentieth centuries was to misrepresent and to distort this obvious state of affairs. The workers, they said, are at the mercy of their employers. Now, it is true that the employer has the right to fire the employee. But if he makes use of this right in order to indulge in his whims, he hurts his own interests. It is to his own disadvantage if he discharges a better man in order to hire a less efficient one. The market does not directly prevent anybody from arbitrarily inflicting harm on his fellow citizens; it only puts a penalty upon such conduct. The shopkeeper is free to be rude to his customers provided he is ready to bear the consequences. The consumers are free to boycott a purveyor provided they are ready to pay the costs. What impels every man to the utmost exertion in the service of his fellow man and curbs innate tendencies toward arbitrariness and malice is, in the market, not compulsion and coercion on the part of gendarmes, hangmen, and penal courts; it is self-interest. The member of a contractual society is free because he serves others only in serving himself. What restrains him is only the inevitable natural phenomenon of scarcity. For the rest he is free in the range of the market.

In the market economy the individual is free to act within the orbit of private property and the market. His choices are final. For his fellow men his actions are data which they must take into account in their own acting. The coordination of the autonomous actions of all individuals is accomplished by the operation of the market. Society does not tell a man what to do and what not to do. There is no need to enforce cooperation by special orders or prohibitions. Non-cooperation penalizes itself. Adjustment to the requirements of society's productive effort and the pursuit of the individual's own concerns are not in conflict.

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Consequently no agency is required to settle such conflicts. The system can work and accomplish its tasks without the interference of an authority issuing special orders and prohibitions and punishing those who do not comply.

Beyond the Market, Compulsion and Coercion

Beyond the sphere of private property and the market lies the sphere of compulsion and coercion; here are the dams which organized society has built for the protection of private property and the market against violence, malice, and fraud. This is the realm of constraint as distinguished from the realm of freedom. Here are rules discriminating between what is legal and what is illegal, what is permitted and what is prohibited. And here is a grim machine of arms, prisons, and gallows and the men operating it, ready to crush those who dare to disobey.

It is important to remember that government interference always means either violent action or the threat of such action. Government is in the last resort the employment of armed men, of policemen, gendarmes, soldiers, prison guards, and hangmen. The essential feature of government is the enforcement of its decrees by beating, killing, and imprisoning. Those who are asking for more government interference are asking ultimately for more compulsion and less freedom.

Liberty and freedom are terms employed for the description of the social conditions of the individual members of a market society in which the power of the indispensable hegemonic bond, the state, is curbed lest the operation of the market be endangered. In a totalitarian system there is nothing to which the attribute "free" could be attached but the unlimited arbitrariness of the dictator.

There would be no need to dwell upon this obvious fact if the champions of the abolition of liberty had not purposely brought about a semantic confusion. They realized that it was hopeless for them to fight openly and sincerely for restraint and servitude. The notions liberty and freedom had such prestige that no propaganda could shake their popularity. Since time immemorial in the realm of Western civilization liberty has been considered as the most precious good. What gave to the West its eminence was precisely its concern about liberty, a social ideal foreign to the oriental peoples. The social philosophy of the Occident is essentially a philosophy of freedom. The main content of the history of Europe and the communities founded by European emigrants and their descendants in other parts of the world was the struggle for liberty. "Rugged" individualism is the

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signature of our civilization. No open attack upon the freedom of the individual had any prospect of success.

New Definitions

Thus the advocates of totalitarianism chose other tactics. They reversed the meaning of words. They call true or genuine liberty the condition of the individuals under a system in which they have no right other than to obey orders. They call themselves true *liberals* because they strive after such a social order. They call democracy the Russian methods of dictatorial government. They call the labor union methods of violence and coercion "industrial democracy." They call freedom of the press a state of affairs in which only the government is free to publish books and newspapers. They define liberty as the opportunity to do the "right" things, and, of course, they arrogate to themselves the determination of what is right and what is not. In their eyes government omnipotence means full liberty. To free the police power from all restraints is the true meaning of their struggle for freedom.

The market economy, say these self-styled liberals, grants liberty only to a parasitic class of exploiters, the bourgeoisie; that these scoundrels enjoy the freedom to enslave the masses; that the wage earner is not free; that he must toil for the sole benefit of his masters, the employers; that the capitalists appropriate to themselves what according to the inalienable rights of man should belong to the worker; that under socialism the worker will enjoy freedom and human dignity because he will no longer have to slave for a capitalist; that socialism means the emancipation of the common man, means freedom for all; that it means, moreover, riches for all.

These doctrines have been able to triumph because they did not encounter effective rational criticism. It is useless to stand upon an alleged "natural" right of individuals to own property if other people assert that the foremost "natural" right is that of income equality. Such disputes can never be settled. It is beside the point to criticize nonessential, attendant features of the socialist program. One does not refute socialism by attacking the socialists' stand on religion, marriage, birth control, and art.

A New Subterfuge

In spite of these serious shortcomings of the defenders of economic freedom it was impossible to fool all the people all the time about the essential features of socialism. The most fanatical planners were forced to admit that their projects involve the abolition of many freedoms peo-

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ple enjoy under capitalism and "plutodemocracy." Pressed hard, they resorted to a new subterfuge. The freedom to be abolished, they emphasize, is merely the spurious "economic" freedom of the capitalists that harms the common man; that outside the "economic sphere" freedom will not only be fully preserved, but considerably expanded. "Planning for Freedom" has lately become the most popular slogan of the champions of totalitarian government and the Russification of all nations.

The fallacy of this argument stems from the spurious distinction between two realms of human life and action, the "economic" sphere and the "noneconomic" sphere. Strictly speaking, people do not long for tangible goods as such, but for the services which these goods are fitted to render them. They want to attain the increment in well being which these services are able to convey. It is a fact that people, in dealing on the market, are motivated not only by the desire to get food, shelter, and sexual enjoyment, but also by manifold "ideal" urges. Acting man is always concerned both with "material" and "ideal" things. He chooses between various alternatives, no matter whether they are to be classified as material or ideal. In the actual scales of value, material and ideal things are jumbled together.

Freedom, as people enjoyed it in the democratic countries of Western civilization in the years of the old liberalism's triumph, was not a product of constitutions, bills of rights, laws, and statutes. Those documents aimed only at safeguarding liberty and freedom, firmly established by the operation of the market economy, against encroachments on the part of officeholders. No government and no civil law can guarantee and bring about freedom otherwise than by supporting and defending the fundamental institutions of the market economy. Government means always coercion and compulsion and is by necessity the opposite of liberty. Government is a guarantor of liberty and is compatible with liberty only if its range is adequately restricted to the preservation of economic freedom. Where there is no market economy, the best-intentioned provisions of constitutions and laws remain a dead letter.

Competition

The freedom of man under capitalism is an effect of competition. The worker does not depend on the good graces of an employer. If his employer discharges him, he finds another employer. The consumer is not at the mercy of the shopkeeper. He is free to patronize another shop if he likes. Nobody must kiss other people's hands or fear their disfavor.

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Interpersonal relations are businesslike. The exchange of goods and services is mutual; it is not a favor to sell or to buy, it is a transaction dictated by selfishness on either side.

It is true that in his capacity as a producer every man depends either directly, as does the entrepreneur, or indirectly, as does the hired worker, on the demands of the consumers. However, this dependence upon the supremacy of the consumers is not unlimited. If a man has a weighty reason for defying the sovereignty of the consumers, he can try it. There is in the range of the market a very substantial and effective right to resist oppression. Nobody is forced to go into the liquor industry or into a gun factory if his conscience objects. He may have to pay a price for his conviction; there are in this world no ends the attainment of which is gratuitous. But it is left to a man's own decision to choose between a material advantage and the call of what he believes to be his duty. In the market economy the individual alone is the supreme arbiter in matters of his satisfaction.

Consumers Choose

Capitalist society has no means of compelling a man to change his occupation or his place of work other than to reward those complying with the wants of the consumers by higher pay. It is precisely this kind of pressure which many people consider as unbearable and hope to see abolished under socialism. They are too dull to realize that the only alternative is to convey to the authorities full power to determine in what branch and at what place a man should work.

In his capacity as a consumer man is no less free. He alone decides what is more and what is less important for him. He chooses how to spend his money according to his own will.

The substitution of economic planning for the market economy removes all freedom and leaves to the individual merely the right to obey. The authority directing all economic matters controls all aspects of a man's life and activities. It is the only employer. All labor becomes compulsory labor because the employee must accept what the chief deigns to offer him. The economic tsar determines what and how much of each the consumer may consume. There is no sector of human life in which a decision is left to the individual's value judgments. The authority assigns a definite task to him, trains him for this job, and employs him at the place and in the manner it deems expedient.

As soon as the economic freedom which the market economy grants to its members is removed, all political liberties and bills of rights become humbug. Habeas corpus and trial by jury are a sham if, under the pretext

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of economic expediency, the authority has full power to relegate every citizen it dislikes to the arctic or to a desert and to assign him "hard labor" for life. Freedom of the press is a mere blind if the authority controls all printing offices and paper plants. And so are all the other rights of men.

A man has freedom as far as he shapes his life according to his own plans. A man whose fate is determined by the plans of a superior authority, in which the exclusive power to plan is vested, is not free in the sense in which the term "free" was used and understood by all people until the semantic revolution of our day brought about a confusion of tongues.

Reprints available, 10 for $1.00.

The Guaranteed Life

IF the millions of workingmen in this country who are patiently paying their social security dues could glimpse the bureaucratic absolutism which that act presages for themselves and their children they would repudiate the whole monstrous and dishonest business overnight. When a government takes over a people's economic life it becomes absolute, and when it has become absolute it destroys the arts, the minds, the liberties and the meaning of the people it governs. It is not an accident that Germany, the first paternalistic state of modern Europe, was seized by an uncontrollable dictator who brought on the second world war; not an accident that Russia, adopting a centrally administered economy for humanitarian reasons, has arrived at a tyranny bloodier and more absolute than that of the Czars. And if England does not turn back soon she will go the same way. Men who are fed by their government will soon be driven down to the status of slaves or cattle.

MAXWELL ANDERSON, Written in a preface to *Knickerbocker Holiday*

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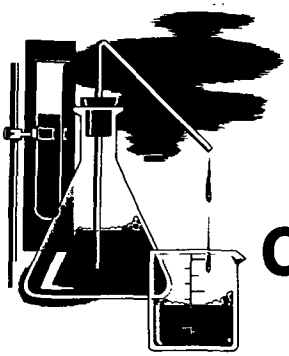

A PERVERSION OF TECHNOLOGY

In 1856 an eighteen-year-old English chemistry student, William Henry Perkin, thought he might find a source of synthetic quinine in coal tar. But serendipity, which has been defined as the faculty for making important discoveries by accident, took over in his test tube. Instead of quinine, Parkin evoked from his coal tar a bright purple solution that was the first of the aniline dyes.

Perkin tried to market his product in his own country, but the English went right on using berries, barks, flowers, eggs and insects for their dyestuffs. It took the Germans, with their genius for turning garbage into wealth, to build a fantastic chemical industry on Perkin's lucky mistake.

What began in the Perkin test tube was to have momentous consequences for the world, both for good and for ill. It was on dyestuffs that I. G. Farben, the great German chemical cartel, grew to such tremendous proportions. The bright reds and yellows and the subtle blues that came out of the German laboratories were profitable but harmless. But dyestuff science and technology—and the funds they generated—had other, and more important, spin-offs.

It is the story of the spin-offs that fascinates Joseph Borkin, a Washington attorney who once worked for Thurman Arnold's antitrust division in the U.S. Department of Justice. The spin-offs—nitrates from the air, gasoline, oil and rubber from coal—have a tremendous potential for good. Synthetic nitrogen fertilizers, coming when they did, put the ghost of Malthus back in its shroud for a considerable stay, and the hydrogenization process of getting gasoline from coal may be the answer to the so-called energy crisis if

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oil and natural gas ever do run out. But highly dangerous explosives can be made from nitrogen; and when gasoline from coal was commandeered by the Nazi state, it almost succeeded in making Hitler's Thousand-Year Reich a horrifying reality.

It is the perversion of chemistry and technology to political ends that is the subject of Mr. Borkin's *The Crime and Punishment of I. G. Farben* (The Free Press-Macmillan, 866 Third Avenue, New York, N.Y. 10022, 250 pages, $10.95). The cartel idea is menacing enough in itself, but when a great cartel and a truly imperial state with pretensions to world rule combine in unholy matrimony the results, as we know from the experience of two world wars, can be devastating. In a lean and disciplined prose that drives straight to the heart of the matter, Mr. Borkin offers us both an exciting action story and a warning fable. This is the Faust legend in modern dress. And in the telling Mr. Borkin makes note of some tremendous ironies.

Patriotic Intentions

The biggest irony of all is that the companies that were combined in I. G. Farben were started by good men. Fritz Haber and Carl Bosch, who together worked out the Haber-Bosch process for getting nitrogen out of the air, were good patriots. Haber, a Jew, had ideas about feeding the world with his nitrogen fixing discoveries, and Bosch, though he believed in industrial combination, always resisted the politicization of his company. The Nazi manias were furthest from their thoughts as they went about the patriotic business of freeing the Kaiser's Germany from dependence on mined nitrates from Chile.

If it hadn't been for the Farben laboratories and factories, World War I would have ended without the protracted slaughters of trench warfare. The German Schlieffen Plan was to wheel through Belgium and take Paris in a month. Stored nitrates from Chile would be enough to carry the Schlieffen Plan to a quick success. But the French taxicab army stopped the Germans at the Marne, and, with both sides digging trenches like mad, the Schlieffen Plan was dead. The Kaiser had to face up to the appalling fact that his army didn't have enough gunpowder to last a year of trench warfare.

So it was up to the German chemical industry. Fritz Haber and Carl Bosch leaped into the breach. When it became apparent that there would be a ticklish gap in time between the disappearance of gunpowder made from imported Chilean nitrates, now cut off by the British blockade, and the free flow of Haber-Bosch factory-produced nitric acid, Fritz Haber was confronted with a moral

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crisis. Chlorine gas was in plentiful supply in the dyestuff plants, and it could be used at the front as a substitute for gunpowder. The chlorine that killed or wounded 15,000 Allied troops at Ypres was a desperation weapon, and could have been justified as such. But when Haber, still wrestling with his conscience, went along with a decision to use poison gas in the Russian East, his wife, Clara, committed suicide.

The price of patriotism came high to Fritz Haber, who was forced out of I. G. Farben to keep the Nazis from proclaiming it a "Jew company." He died in exile in Switzerland, a broken man. Bosch's fate was to be sidetracked after he made the mistake of telling Hitler to his face that the Nazi campaign against the Jews would set German chemistry back a hundred years. In dismissing Bosch Hitler roared, "Then we'll work a hundred years without physics and chemistry."

Slavery and Murder

There were others in I. G. Farben who decided, some of them eagerly, some out of prudence, to hunt with Hitler to the end. Without Farben-made gasoline from coal and a buna rubber substitute from the same source, the Nazis could not have embarked on the conquest of Europe. One compromising thing led to another, and I. G. found itself building a huge industrial complex next door to the Nazi death camp at Auschwitz. The decision to build at Auschwitz was dictated by a plentiful supply of water, which was needed in abundance for chemical processes. But Auschwitz also offered I. G. Farben an unending supply of slave labor. The company plumbed its own depth of depravity when it set up its own concentration camp, with a gallows to remind workers that hanging could be the penalty for even the most innocent disruption of shop routine.

For their crimes in abetting Hitler's murder policies and plundering the chemical companies of France and Poland, key I. G. Farben officials got off lightly enough. Borkin strains to be objective in reporting the sentences—"guilty of . . . slavery and mass murder, sentenced to imprisonment for six years." The excuse of some of the convicted officials could have been "duress," but if the Farben high command had chosen another site in preference to Auschwitz would the Nazis have intervened? It was not "duress" that had the company casting sheep's eyes at a source of cheap labor that could be literally worked to death.

Mr. Borkin leaves no doubt that there was considerable hanky-panky about the return of I. G. Farben-owned property, both inside Germany and in the United States, to German owners after both the big wars. Some mighty big names were

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involved in deals that, in retrospect, seem more than faintly discreditable. Bribes were passed after World War I to shady hangers-on in the Harding Administration. And an effort was made to use a relative of the Kennedys to regain General Aniline and Film, seized by the U.S. during the second war.

The return of Farben properties after World War I had disastrous consequences to the allies during the Hitler years. We have been luckier in our post-World War II relinquishments. But Mr. Borkin wonders about the precedents we have set.

THE ANTITRUST PARADOX
by Robert H. Bork
(Basic Books, Inc., 10 E. 53rd Street, New York, N.Y. 10022, 1978)
388 pages ■ $18.00

Reviewed by Melvin D. Barger

WHEN it passed the Sherman Act in 1890, the U.S. Congress set the government on a new course—attempting to control the size and market influence of business organizations. The other early milestones in antitrust legislation were the Clayton Act and the Federal Trade Commission Act, both passed in 1914. Clayton involved the government in pricing decisions and was reinforced by the Robinson-Patman amendment in 1936, while the Federal Trade Commission Act mandated the setting up of an administrative agency to regulate competitive business practices. Except for occasional subsequent tinkering and threats, Congress has stayed out of the antitrust field, and antitrust policy has really been shaped by a series of landmark Supreme Court decisions.

According to Robert H. Bork, a large number of these Supreme Court decisions have been wrong, resulting in an antitrust policy that is at war with itself. Judicial performance on key antitrust decisions has been both inept and contradictory, seriously impairing business efficiency and imposing heavy penalties on the American consumer. The original purpose of antitrust legislation was the promotion of "consumer welfare," but any such ideal has long since been diluted by a complex chain of court decisions aimed at reaching various other social and political goals.

The Antitrust Paradox is a well-organized, well-written study of just how this happened, with some final thoughts about the general problem. Mr. Bork brings impressive credentials to this task. A full-time professor at the Yale Law School, he is a former Solicitor General of the United States and more recently

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was a resident scholar at the American Enterprise Institute. Highly regarded in the legal profession, he is emerging as one of the new dissident intellectuals who can find some good things to say about the American business system. Like Milton Friedman and Irving Kristol, Mr. Bork is not a purist libertarian, but he is heavily oriented in free market principles and his writings clearly call for considerable freedom in business.

Mr. Bork opens his argument with some powerful comments about the current crisis in antitrust. We learn something about the antitrust enterprise, the lawyers, judges, economists and legislators who work unceasingly in antitrust to impose a complexity of rules on business. "Generally, these rules ignore the obvious fact that more efficient methods of doing business are as valuable to the public as they are to businessmen," Mr. Bork writes. "In modern times the Supreme Court, without compulsion by statute, and certainly without adequate explanation, has inhibited or destroyed a broad spectrum of useful business structures and practices. Internal growth to large market size has been made dangerous. Growth by merger with rivals is practically impossible, as is growth by acquisition of customers or suppliers. Even acquisitions for the purpose of moving into new markets have been struck down, as the law evolves a mythology about the dangers of conglomerate mergers." There are other questionable Court positions: against cooperative ventures by independent businesses, against manufacturer control of product distribution, in favor of pricing behavior that actually leads to higher prices.

But even this unpleasant state of affairs may be only temporary. The current populist hostility to business makes it easy to blame every hardship on the major corporations, paving the way for further antitrust assaults on business. Indeed, there are a number of antibusiness people who might admit that antitrust has some intellectual problems but is a good idea because it keeps businessmen on the defensive. And among those professionally concerned with antitrust, Professor Bork says, there is disagreement about two basic questions: (1) the goals or values the law may legitimately and profitably implement; and (2) the validity of the law's vision of economic reality. Professor Bork obviously feels that consumer welfare should be the primary goal of antitrust, and he takes issue with much of the economic theory that guided many of the antitrust landmark decisions.

A large part of the problem is that any antitrust legislation requires making severe trade-offs. If the antitrust policy is aimed at maintain-

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ing a certain number of producers in an industry, it may be at the cost of business efficiency and hence consumer welfare. Professor Bork does not pretend that a free market will always allow for a certain number of rivals to survive in an industry, but he does show that most successful firms become dominant largely through efficiency rather than as a result of predatory behavior. Again and again, however, this business success has been penalized by the courts simply because the judges failed to focus on the single goal of consumer welfare or used an unsound basis for economic reasoning.

While the goal of consumer welfare has its drawbacks, it would at least give the business community fair warning about the probable legality of its operations, it would tend to place intensely political and legislative decisions in Congress instead of in the courts, it would maintain the integrity of the legislative process, it would require more realistic economic reasoning, and it would avoid arbitrary or anticonsumer rules, Mr. Bork writes. But with antitrust policy pursuing many social and political goals, none of these things are being achieved.

Mr. Bork then goes on to analyze, case by case, the landmark Supreme Court decisions that led to the current crisis. Writing in a brisk, highly readable style, he dissects these important decisions in such a way that the ordinary layman can understand them. There was the famous United Shoe Machinery decision, for example, which undermined machinery leasing practices without really determining whether the firm was being efficient or predatory. In the Brown Shoe case, a merger was ruled a threat to competition even though the acquiring firm and the firm being acquired had, respectively, only 4 and 0.5 percent of the nation's shoe output! And in one of the most well-publicized decisions of all, the Supreme Court ruled against Procter & Gamble's acquisition of Clorox on the grounds that Procter had advantages in advertising and promotion which would be anticompetitive.

Professor Bork mentions or analyzes about 80 cases which relate to the key topics of his book, and the effect is one of brilliant revisionism. He knocks down first one well-established argument and then another, demonstrating that in case after case the courts systematically destroyed consumer welfare while pursuing goals aimed at preserving competition, "protecting" the small businessman, or eliminating barriers to entry. The conclusion is inescapable that many of the antitrust landmark decisions which formed antitrust policy have been disasters for the consumer, as well as being destructive to business freedom.

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In his Summation (what other term could a lawyer use for closing remarks!), Professor Bork calls for a sweeping reform of antitrust policy based on making consumer welfare the only policy goal. He specifies several forms of behavior that should continue to be proscribed by the law, but he goes on to argue that many of the practices that are now prohibited should be permitted, including agreements on prices, territories, refusals to deal (with certain qualifications), small horizontal mergers, all vertical and conglomerate mergers, vertical price maintenance and market division, and many other actions which most corporation lawyers now regard as off limits. Moreover, he does not feel that antitrust should be concerned with any firm size or industry structure created by internal growth or by a merger more than ten years old.

Professor Bork also acknowledges, in his final thoughts, that current antitrust policy was influenced by something deeper than erroneous reasoning. "To study antitrust at length, to wonder at the manifold errors of economics and logic displayed, to see that the errors move the law always in one direction, is to begin to suspect that a process much deeper than mere mistaken reasoning is at work," he writes. "It seems as though the intellectual terrain is regarded as important not in and for itself but as a field of action upon which the political order moves against the private order."

Mr. Bork leaves no doubt that his sympathies also move in one direction, at least much of the time. He wants to protect and preserve the good in the private order and the free society. Most of the time, the private order loses in the antitrust struggle. But with heavyweight defenses such as *The Antitrust Paradox,* the private order may have a fighting chance.

THE INFLATION CRISIS, AND HOW TO RESOLVE IT
by Henry Hazlitt
(Arlington House Publishers, New Rochelle, New York)
192 pages ■ $8.95

Reviewed by Mark Spangler

NOWADAYS people from every walk of life are concerned about inflation.

What actually is inflation? Is it inherent in a free market economy? Who or what is the cause—unions, government regulations, merchants, federal deficits, or middlemen? Can inflation be stopped, and how?

What to do? Most people are desperately confused and searching for answers. Society is facing nothing short of a crisis. In answer to this

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grave situation comes Henry Hazlitt's latest book, *The Inflation Crisis, and How to Resolve It.* As Mr. Hazlitt himself begins the book, "No subject is so much discussed today—or so little understood—as inflation."

Henry Hazlitt estimates that a dollar of today is worth less than 25 cents of a 1940 dollar, and certainly no one has to be told that a dollar continues to buy less and less. Yet, how many people realize that since 1940 the federal government has increased the money stock by well over a *thousand* percent? Hazlitt reports that at the end of 1939 the total number of dollars in the economy was 63.3 billion, and at the end of 1977 that figure stood at *806.5 billion.* Anyone who is aware of these events should surely sense a logical connection between constantly rising prises and a continuous expansion of the money supply.

Mr. Hazlitt points out that there are two sides to every price: "A 'price' is an *exchange ratio* between a dollar and a unit of goods. When people have more dollars, they value each dollar less. Goods then rise in price, not because goods are scarcer than before, but because dollars are more abundant, and thus less valued." He clearly explains that the present predicament of ever-soaring prices results from a deliberate government policy to flood the economy with more and more dollars simply by "printing" them, so to speak. In fact, the term "inflation" originally meant increasing (inflating) the money supply. Today the term is commonly used to mean the most evident consequence of creating money, generally rising prices.

So, nothing at all is mysterious about inflation; it is government intervention pure and simple. Why, then, do government leaders continue to inflate and why do the "printing presses" go undetected by the general public?

Inflation serves the immediate interests of vote-seeking politicians. Most office seekers promise scores of hand-outs in return for being elected, but the federal budget has become so ominous that financing by direct taxation is politically impossible. The federal government resorts to printing money to help cover any deficits, and that is done in a very complicated way through the Federal Reserve and commercial banking system so as to hide the process from most people.

Henry Hazlitt devotes a great deal of *The Inflation Crisis* to discussing government spending, deficit financing, and the fallacies in general of a government-managed monetary system. In addition, he explains the benefits of a market-determined gold standard.

His text ranges from presenting simple principles of money and inflation to refuting sophisticated

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Keynesian doctrines, especially the notion that monetary expansion is necessary to employ idle workers and resources.

Equally important, Hazlitt analyzes policies of monetarists, generally led by Chicago School economist Milton Friedman. The distinction between monetarists and other advocates of free enterprise is often muffled. Henry Hazlitt makes plain that monetarists are inflationists, who advocate a certain annual rate of monetary expansion by government officials: "The central flaw of the Monetarist proposal is its extreme political naivete. It puts the power of controlling the quantity, the quality, and the purchasing power of our money entirely in the hands of the State, that is, of the politicians and bureaucrats in office." A consistent free market economist, on the other hand, would argue to let individuals, voluntarily acting in the marketplace, choose what commodity they will accept as money.

Hazlitt cautions about using false remedies to combat inflation. Attacking rising prices with wage-and-price controls misses totally the heart of the problem. They do *nothing* to halt the monetary expansion. Moreover, the controls themselves have the disastrous consequences of creating shortages, discouraging production, and moving ever toward a complete command economy.

Mr. Hazlitt also explains how inflation disrupts production, inhibits economic calculation, distorts interest rates, malemploys workers and resources, and consumes capital.

Just as serious as the economic disruption are the social consequences of inflation. It destroys thrift, promotes gambling, disheartens the spirit to work, and breeds social unrest, envy, and crime. "Under inflation . . . only a handful of people realize clearly what is going on. The majority tend to blame their plight, not on government, but on those of their neighbors who appear to be profiteering from inflation."

From the standpoint of economics, the cure for inflation is simple—stop it! Stop the politicians from printing money to pay for their spending programs; but herein lies the difficulty. The problem of inflation extends beyond economics, as Henry Hazlitt concludes, "A major part of the solution . . . will be *how to get the monetary system out of the hands of politicians*. Certainly as long as we retain our nearly omnipotent redistributive State, no sound currency will be possible."

Editor's Note: *The Inflation Crisis, and How to Resolve It* is available at $8.95 from The Foundation for Economic Education, Irvington-on-Hudson, N.Y. 10533.

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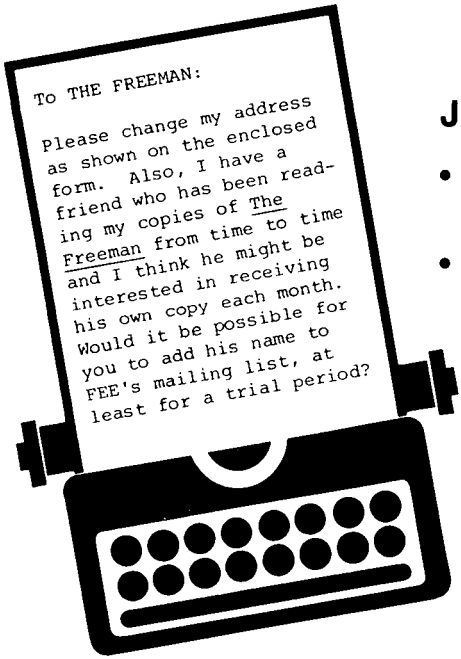
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